



DEPARTMENT OF DEFENSE

AUDIT REPORT

PLANT CLEARANCE ACTION ON GOVERNMENT-OWNED PROPERTY
IN THE POSSESSION OF DEFENSE CONTRACTORS

No. 90-043

March 2, 1990

*Office of the
Inspector General*





INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

March 2, 1990

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on the Audit of Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors (Report No. 90-043)

This is our final report on the Audit of Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors for your information and use. Comments on a draft of this report were considered in preparing this final report. We made the audit from August 1988 through May 1989. The audit objectives were to determine whether contractor disposal actions, and the Government plant clearance officers' review of such actions, resulted in excess Government-owned property being disposed of in a manner that was most beneficial to the Government. We also reviewed the internal controls applicable to the plant clearance function. During the 12-month period ended June 30, 1988, Government plant clearance officers reported that \$1.2 billion in excess Government-owned property was processed through 28,013 plant clearance cases.

Excess Government-owned property at contractor locations was not properly screened for reutilization through the Contractor Inventory Redistribution System. Proceeds from contractor conducted sales of Government-owned property were not verified as required by the Defense Federal Acquisition Regulation Supplement (DFARS), and property identified to closed and completed contracts was retained at contractors' facilities. The results of the audit are summarized in the following paragraphs, and the details, audit recommendations, and management comments are in Part II of this report.

Excess Government-owned property at some contractor locations was not screened for reutilization in accordance with procedures established in the DFARS, asset availability notifications were not sent to the appropriate Integrated Materiel Manager (IMM), and some IMM's lacked adequate review procedures. As a result, we estimated that over \$143 million in

excess Government-owned property was not reviewed to fill DoD supply systems' requirements and about \$17.3 million could have been reutilized. We recommended that the Assistant Secretary of the Army (Research, Development and Acquisition) and the Assistant Secretary of the Navy (Shipbuilding and Logistics) require that field contract administration activities follow DFARS plant clearance procedures. We also recommended that the Assistant Secretary of Defense (Production and Logistics) develop an automated plant clearance reutilization process and require that formal procedures be developed for DoD IMM's to follow when processing excess reports (page 3).

Proceeds from the disposition of Government-owned property were not adequately verified by responsible Government personnel. At eight of nine locations visited, proceeds from periodic sales and a contract termination action valued at \$13 million and \$4.3 million, respectively, were not verified. Consequently, there was no assurance that proceeds due the Government were received and properly accounted for. We recommended that the Military Departments and the Defense Logistics Agency (DLA) provide plant clearance officers with adequate training to verify that sales proceeds due the Government are received and emphasize the need for witnessing sales and verifying contractor inventory schedules. We also recommended that DLA verify that proceeds due the Government from the termination of the Division Air Defense Gun System (DIVAD) contract are accounted for, follow up on the reported retail store operation to verify that Government property is no longer sold in the contractor's store, and verify that erroneous accounting entries cited are corrected. We also found that a Navy command was augmenting operating funds through credits obtained from the turn in of plant clearance inventory. Additional work is being done on this subject, and a separate report will be issued (page 9).

Unnecessary storage costs were incurred because Government-owned property for completed and closed contracts was being retained at contractor locations. At 1 contractor location, \$31.5 million in Government-owned property was stored under 44 closed contracts that dated back to the 1950's. Our review of 60 additional contracts, awarded during the 1960's and 1970's, showed that about \$286 million in Government property was stored under 18 contracts that were either closed or completed. Also, "no-cost" storage agreements, which were prohibited from use in November 1986, were still in effect. As a result of storing unneeded property, the Government may incur unnecessary storage costs of an estimated \$28.6 million a year. We recommended that the Assistant Secretary of Defense (Production and Logistics) require the Military Departments and Defense Logistics Agency to periodically inspect field contract administration activities to verify compliance with the November 1986 DoD policy on decisions to store Government property. We also recommended that the Military Departments and DLA review contracts with Government

property awarded prior to fiscal year 1980 and initiate appropriate plant clearance actions on unneeded Government property (page 17).

The audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls were either not established or were ineffective to ensure that excess Government-owned property was screened through the DoD reutilization process and that proceeds due from the disposition of Government property were received and properly accounted for. Recommendations A.1., A.2., B.1., and B.2., if implemented, will correct the internal control weaknesses. The senior officials responsible for internal controls within your Department or Agency are being provided a copy of this final report.

This report identifies estimated monetary benefits, cost avoidances, of \$45.9 million (Appendix J). We estimated that monetary benefits of \$17.3 million could be achieved by automating the excess property reutilization system and developing formal procedures at DoD IMM's to recover excess property from contractor locations (Recommendation A.2.). We estimated that monetary benefits of \$28.6 million could be achieved by ensuring that plant clearance actions are promptly taken on closed and completed contracts and avoiding unnecessary storage costs (Recommendation C.1.).

On October 4, 1989, a draft of this report was provided to the Assistant Secretary of Defense (Production and Logistics); the Assistant Secretary of the Army (Financial Management); the Assistant Secretary of the Navy (Financial Management); the Assistant Secretary of the Air Force (Financial Management and Comptroller); and the Director, Defense Logistics Agency. Comments on the draft report were received from the Assistant Secretary of Defense (Production and Logistics) on December 6, 1989. Comments from the Director, U.S. Army Contracting Support Agency, Office of the Assistant Secretary of the Army (Research, Development and Acquisition), were received on December 13, 1989; the Assistant Secretary of the Navy (Shipbuilding and Logistics) on January 18, 1990; the Deputy Assistant Secretary of the Air Force (Acquisition Management and Policy) on December 15, 1989; and the Comptroller, Defense Logistics Agency, on December 11, 1989. Management comments are summarized below, and the complete texts are provided in Appendixes E through I.

The Assistant Secretary of Defense (Production and Logistics) concurred with Recommendation A.2.a., agreed to implement an automated reutilization system for plant clearance inventories by October 1990, and stated that the estimated cost avoidance of \$22.3 million cited in the draft report was \$5 million higher than he estimated. We have accepted this revised \$17.3 million estimate and have revised our estimated monetary benefits accordingly. The Assistant Secretary concurred with Recommendation A.2.b. and stated that procedures for the

IMM's will be developed in conjunction with the new automated system. The Assistant Secretary concurred with Recommendation C.1. to monitor the implementation of the Under Secretary of Defense for Acquisition (USD[A]) November 1986 policy initiatives on Government property. A DoD Inspector General audit on these initiatives has been requested and is scheduled for fiscal year 1990. This audit will assess the need for additional follow-up action. The Assistant Secretary also stated that the claimed monetary benefits of \$28.6 million in Finding C. appeared high, but a better estimate could not be provided. We based our estimate on a study performed by one contractor since no other data were available. Management comments and actions are responsive and additional comments from the Assistant Secretary to the final report are not required. The information on Government property assigned to completed and closed contracts, which was developed during this audit will be provided for analysis as part of the requested audit.

The Director, U.S. Army Contracting Support Agency, concurred with Recommendations A.1., B.1., and C.2. The Director stated that a memorandum would be sent to the Army Materiel Command by December 29, 1989, requesting that contract administration activities comply with these three recommendations. Action is considered responsive and additional comments from the Army are not required.

The Assistant Secretary of the Navy (Shipbuilding and Logistics) concurred with Recommendations B.1. and C.2. and corrective actions are being taken. Concerning Recommendation A.1., the Assistant Secretary concurred that property at some Navy contractor locations was not screened and reutilized through CIRS, but believes that the alternate screening and reutilization procedures being used are more effective. An exception to the required DoD procedures is being requested. We request that the Navy coordinate its procedures with the automated plant clearance system being developed and discussed in the Assistant Secretary of Defense (Production and Logistics) response to this report and provide additional comments on Recommendation A.1. in response to this report.

The Deputy Assistant Secretary of the Air Force (Acquisition Management and Policy) partially concurred with Recommendation B.1. and Air Force instructions on maintaining suspense records for sales of Government-owned property are being revised. Concerning the tracing of proceeds through contractor's records, the Deputy Assistant Secretary stated that if the plant clearance officers require help, contract audit assistance should be requested. The management comments are responsive and additional comments on this recommendation are not required.

The Comptroller, DLA, nonconcurred with Recommendation B.1. concerning maintenance of suspense records, verifying inventories and proceeds, and witnessing sales and stated that the existing regulatory requirements ensure that these functions are being

accomplished. Our tests found that these requirements were not being followed and additional emphasis was required. The Comptroller, DLA, nonconcurred with Recommendation B.2.a. to have the Defense Contract Administration Plant Representative Office (DCASPRO) at Newport Beach, California, verify \$4.3 million in sales proceeds from the termination of the Division Air Defense (DIVAD) weapon system. DLA stated that the Termination Contracting Officer (TCO) was responsible for verifying the sales proceeds from termination inventories. We do not dispute who was responsible for verification, but request that DLA verify that the Government received the \$4.3 million. At the time of our audit, the contractor's records showed that only \$217,973 was credited to the termination account while the TCO's records showed that \$4.5 million was derived from proceeds of plant clearance inventories.

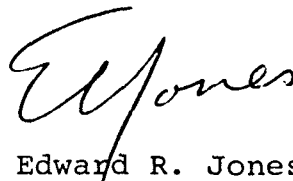
The Comptroller, DLA, concurred with Recommendation B.2.b. to stop Rockwell International Corporation from selling Government-owned property in a company-owned retail store and Recommendation B.2.c. to have Ford Aerospace Company correct the \$99,512 accounting error detected during the audit. Actions taken on Recommendation B.2.c. are responsive and no further action is required. Although DLA concurred with Recommendation B.2.b., the action taken is incomplete. DLA has stopped the contractor from selling excess DoD Government property in the retail store, but has permitted the company to continue selling National Aeronautics and Space Administration (NASA) Government-owned property based on permission received by Rockwell International from the NASA Johnson Space Center. The Defense Contract Administration Services Region (DCASR), Los Angeles, has responsibility over contracts administered at Rockwell International as well as all Government-owned property supplied by the Government. DCASR, Los Angeles, should follow the Defense Federal Acquisition Regulation Supplement (DFARS) in administering the Government-owned property at Rockwell. DFARS does not permit retail sales of Government property by contractors. We are asking DLA to either have Rockwell International discontinue selling Government-owned property through the retail store operation or obtain a waiver from this regulatory requirement. DLA is requested to reconsider its position on Recommendations B.1., B.2.a., and B.2.b. and provide additional comments in response to the final report.

The Deputy Assistant Secretary of the Air Force (Acquisition Management and Policy) and the Comptroller, DLA, partially concurred with Finding C. concerning Government property on completed and closed contracts. Individual contracts cited in the audit report are being addressed and corrective action taken. The Air Force and DLA nonconcurred with Recommendation C.2. to review contracts with Government property assigned that were awarded prior to 1980 to ensure that appropriate plant clearance action has been initiated on unneeded property. Both the Air Force and the DLA cited the extensive efforts taken in response to the November 1986 USD(A) memorandum on Government

property initiatives. The report recognizes the actions taken at the time and the significant quantities of excess property identified. However, DoD Property Accountability Reports show significant amounts of property assigned to older contracts, some of which are categorized as completed or closed. DoD property policies provide for review and justification for the retention of Government property not currently needed. The review of older contracts addressed in Recommendation C.2. is intended to provide management emphasis where these reviews would likely be most productive. The Air Force and DLA are requested to reconsider their responses to this recommendation and provide additional comments in reply to this report.

DoD Directive 7650.3 requires that all audit recommendations be resolved within 6 months of the date of the final report. Therefore, final comments on the unresolved issues in this report should be provided within 60 days of the date of this memorandum.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Charles Hoeger or Mr. Pat Golden on (215) 952-3881 (AUTOVON 444-3881). A list of the Audit Team Members is in Appendix L. Copies of the final report are being provided to the activities listed in Appendix M.



Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosure

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

REPORT ON THE AUDIT OF
PLANT CLEARANCE ACTION ON GOVERNMENT-OWNED
PROPERTY IN THE POSSESSION OF DEFENSE CONTRACTORS

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Prepared by:
Logistics Support Directorate
Project No. 8SL-0063

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PART II - FINDINGS AND RECOMMENDATIONS

A. Reutilizing Excess Government-Owned Property

FINDING

Excess Government-owned property at contractor locations was not screened and reutilized through the Contractor Inventory Redistribution System (CIRS), as required by the Defense Federal Acquisition Regulation Supplement (DFARS). This occurred because Government plant clearance officers did not include all items of excess inventory in the reutilization process; the Defense Reutilization and Marketing Service (DRMS), the Government activity responsible for the reutilization process, did not send asset availability notifications to the appropriate Integrated Materiel Managers (IMM's); and some IMM's lacked adequate procedures to review the asset notifications. We estimated that over \$143 million in excess Government-owned property was not reviewed to fill supply system requirements and about \$17.3 million could have been recovered and reutilized by DoD IMM's.

DISCUSSION OF DETAILS

Background. A primary objective of the plant clearance function is to reutilize Government-owned, contractor held property that is excess to contractual requirements. Government-owned property in the possession of contractors either is supplied as Government Furnished Property or is acquired by contractors at the Government's expense. The plant clearance process starts with contractor notification of excess property provided on contractor prepared inventory schedules. Government plant clearance officers supervise the disposition of excess property. Part of the plant clearance process is the reutilization of property through the CIRS. The requirement and selection criteria for screening excess items through the CIRS are contained in the DFARS, subpart 45.608.70. Items selected for CIRS screening are serviceable or usable items that have a national stock number with an extended line item acquisition value in excess of \$50 or that do not have a national stock number, but have an extended line item acquisition value of more than \$500.

The Defense Logistics Agency (DLA) initially developed CIRS in 1978 to facilitate the reutilization of excess Government-owned property in the possession of Defense contractors. CIRS is a semiautomated process, but the data products require manual review by recipients. Until 1986, CIRS was operated by the Defense Industrial Plant Equipment Center (DIPEC) in Memphis, Tennessee, but in March 1986, the responsibility for CIRS was transferred to the DRMS in Battle Creek, Michigan.

Under CIRS, Government plant clearance officers send reports of excess property to the DRMS. The DRMS verifies that items submitted meet the prescribed cost and condition criteria, and that they are identified by national stock numbers or manufacturer's part numbers. Then, the DRMS notifies DoD IMM's of existing excess property. This notification is done by distributing weekly catalogs that contain all items available in a given week and by sending each DoD IMM an edited list of catalog items that specifically pertain to the respective IMM's. IMM's, upon identifying a need for a cataloged item, requisition the item through DRMS.

Screening of Excess Property. Of the 53,000 reported line items valued at about \$280 million and cataloged by DRMS in the CIRS during fiscal year 1988, DoD IMM's requisitioned 9,000 items valued at \$41 million. Based on acquisition value, this represents a reutilization factor of about 15 percent. We found that some field contract administration activities were not using CIRS and that the CIRS screening process caused excess asset reports to be provided to the incorrect IMM's. As discussed below, we estimated that about \$143 million of excess property was not reviewed to fill supply system requirements in fiscal year 1988. Based on our tests, we originally estimated that about \$22.5 million of these assets could have been recovered and reutilized. As a result of comments to the draft report from the Assistant Secretary of Defense (Production and Logistics) we have revised our estimate to \$17.3 million.

Field Activities' Use of CIRS. Of the nine contract administration field activities visited during the audit (Appendix A), we found that four were not using CIRS to reutilize Government-owned property. During fiscal year 1988, the 4 locations processed 3,007 plant clearance cases, with a collective acquisition value of \$72.4 million. The DFARS, subpart 45.608.70, requires plant clearance officers to screen excess inventory through CIRS.

Plant clearance officers were not screening excess inventory through CIRS because they were unaware of the DFARS requirement; they believed that the excess inventory was unique and other DoD activities would not have any need for it; and, at one Navy activity, the excess materiel was turned over to another contractor for alternate screening.

We analyzed 40 plant clearance cases at the 4 locations that were not using CIRS. These 40 cases involved 20,472 line items valued at \$21,282,300. We found that 17,607 line items valued at \$13,318,400 (63 percent) qualified for CIRS screening. Based on this analysis, we estimated that \$45.6 million (63 percent) of the \$72.4 million at these locations should have been subjected to CIRS screening. Based on the 15-percent reutilization rate reported by DRMS, about \$6.8 million of the \$45.6 million would

have been claimed by DoD Components. DoD plant clearance reports indicated that when items were not reutilized, they were sold as scrap at about 3 percent of the acquisition value.

Notifying IMM's of Excess Inventory. DRMS publishes weekly catalogs of excess inventory reported by plant clearance officers. The catalogs, which are manually prepared, are sent to about 880 potential users, including IMM's at the Army, Navy, Air Force, and DLA who are responsible for wholesale materiel management of designated items of supply. Each catalog contains about 1,000 line items, making the review of the catalog labor intensive and time consuming. To lessen the time needed to review the excess asset reports at the IMM's, DRMS telecommunicates asset data to each IMM for the items that it manages.

We found that a programming flaw caused the card images of excess items to be transmitted to the wrong IMM. We reviewed the 997 asset notifications published in the DRMS' February 6, 1989, catalog to ascertain if DRMS sent the notifications to the applicable IMM's. We determined which IMM's were designated as the DoD supply source from the Catalog Management Data File maintained by the Defense Logistics Services Center (DLSC). Our test of the 997 items, identified by national stock number, showed that the appropriate IMM's were not notified of asset availability on 544 (55 percent) of the items. Because of the time needed to review the catalogs, responsible personnel at IMM's did not review them. Instead, they relied on the card image asset notifications transmitted by DRMS. Statistics for fiscal year 1988 show that DRMS cataloged 53,000 items valued at \$280 million. With 55 percent of the items misdirected, about 25,000 items valued at \$97.9 million were not reviewed. Based on the 15-percent reutilization rate, about \$14.7 million may be saved each year once the programming problem is fixed.

None of the asset notifications in our test were sent to Army IMM's. This occurred because DIPEC and the Army could not agree on the way asset notification data would be transmitted. The disagreement occurred while the CIRS operation was at DIPEC in Memphis, Tennessee. The transfer of the CIRS program function to DRMS, Battle Creek, Michigan, resulted in a complete turnover of personnel. Personnel at DRMS were unaware of the disagreement with the Army until it was disclosed during our audit work. DRMS personnel assured us that corrective action would be taken to transmit asset notification data to the appropriate Army IMM's. Of the 544 test items that were misdirected, Army IMM's managed 55 items valued at \$123,000.

DRMS personnel interrogated the DLSC data base to determine the correct source-of-supply for items to be included in CIRS; however, the computer program at DRMS that created the card images and directed the transmission of asset notification data was changing correct addresses to incorrect addresses. As shown in Appendix B, this problem affected DLA managed items more than

Military Department managed items. Because the assigned IMM's were most likely to recognize needs and requisition items offered by CIRS, this condition resulted in reduced potential reutilization of excess assets. Based on our audit, the DRMS and the Defense Logistics Agency Systems Automation Center began a joint effort to research and correct the programming error.

Review of CIRS Data by IMM's. IMM's, upon receipt of CIRS asset availability notifications, are responsible for determining if requirements exist for items offered. We visited six IMM's and reviewed procedures used to examine asset notifications that were sent by DRMS.

We reviewed actions taken on 237 catalog items with an acquisition value of \$1.8 million that were published in the 4 CIRS catalogs issued during February 1989 (catalogs 637 through 640). Our test included catalog items with an acquisition value of \$1,000 or more that were in A1 condition (serviceable, usable without qualification, unused, good) or in A4 condition (serviceable, issuable without qualification, used, good). We identified 120 catalog items with an acquisition value of \$962,900 that the IMM's should have requisitioned (Appendix C). Of the 120 items, the IMM's did not requisition 90 items valued at \$779,400. At the same time, IMM's had \$162,568 in outstanding procurements for the same items. Our criteria for determining that IMM's should have requisitioned items were based on the line item retention limit as defined in DoD Directive 4100.37, "Retention and Transfer of Materiel Assets," May 24, 1988. Based on information provided during our review, the IMM's should have taken action to requisition the 90 line items.

There were no formal procedures in effect at the IMM's for reviewing CIRS data. Informal procedures that IMM's used to review CIRS data differed. Army IMM's did not review anything since they did not receive automated asset notifications. Navy IMM's did only partial reviews of CIRS data, apparently based on limited resources, but generally requisitioned few items. The Air Force IMM's actively reviewed the asset notifications and, where appropriate, requisitioned items. DLA used the DoD Materiel Returns Program procedures as a means of mechanically screening for requirements. A summary of our test results is contained in Appendix C.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Assistant Secretary of the Army (Research, Development and Acquisition) and the Assistant Secretary of the Navy (Shipbuilding and Logistics) require field contract administration activities to follow the Defense Federal Acquisition Regulation Supplement requirements and use the Contractor Inventory Redistribution System in the plant clearance process.

2. We recommend that the Assistant Secretary of Defense (Production and Logistics):

a. Develop an automated plant clearance reutilization process for reporting excess property at contractors' locations to facilitate the identification and recovery of property by Integrated Materiel Managers.

b. Require that formal procedures be developed for DoD Integrated Materiel Managers to follow when reviewing Contractor Inventory Redistribution System asset notifications of excess contractor inventory.

MANAGEMENT COMMENTS

The Director, U.S. Army Contracting Support Agency, concurred with Recommendation A.1. and stated that a memorandum would be sent to the Army Materiel Command by December 30, 1989, requesting contract administration activities to comply with the recommendation.

The Assistant Secretary of the Navy (Shipbuilding and Logistics) concurred that property at some contractor locations was not screened and reutilized through the CIRS, as required by the DFARS. However, Supervisor of Shipbuilding and Repair (SUPSHIP) activities have found that, in the past, alternative screening and reutilization programs have proven more effective than the CIRS program. The Consolidated Residual Asset Management Program (SCRAMP) deals with excess outfitting materiel from shipbuilding and conversion programs and provides for reutilization of materiel. Other materiel is processed through the Intra-Fleet Supply Support Operations Team (ISSOT) program. The Assistant Secretary stated that since this is not fully in accordance with the DFARS, action is underway to obtain authorization to continue this method of plant clearance and reutilization.

The Assistant Secretary of Defense (Production and Logistics) concurred with Recommendation A.2.a. to develop an automated plant clearance reutilization process. An Ad Hoc Group was established to investigate the feasibility of an electronic plant clearance system and to develop the necessary policy and procedures for implementation. A test of the new automated system is anticipated by late spring 1990 and implementation is planned by late fall 1990. The Assistant Secretary concurred with modification with Recommendation A.2.b. Since the electronic plant clearance system will incorporate the CIRS, the IMM procedures will be developed in conjunction with the electronic plant clearance system. Concerning the audit estimate of monetary benefits, the Assistant Secretary stated that the estimate of \$22.3 million was \$5 million higher than the \$17.3 million developed in the cost benefit analysis for the planned electronic plant clearance project.

Although the recommendations were not addressed to the Air Force, the Deputy Assistant Secretary of the Air Force (Acquisition Management and Policy) nonconcurred with Recommendation A.2. The Deputy Assistant Secretary stated that the CIRS is considered a workable system, that developing a new automated system will not guarantee that assets will be screened better, and that complete participation by all activities is the key for CIRS or any system to work. The Deputy Assistant Secretary also stated that the estimated monetary benefits of \$22.3 million assumes that there is no reutilization under current procedures, and this was not substantiated.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The comments and planned actions of the Director, U.S. Army Contracting Support Agency, on Recommendation A.1. and the Assistant Secretary of Defense (Production and Logistics) on Recommendations A.2.a. and A.2.b. are responsive. The revised estimate of monetary benefits provided by the Assistant Secretary of Defense (Production and Logistics) is accepted. Concerning the comments of the Assistant Secretary of the Navy to Recommendation A.1., we did not review the SCRAM during this audit. We request that the Navy coordinate its plant clearance reutilization procedures with the electronic plant clearance system in development for the DoD Components and discussed in the Assistant Secretary of Defense (Production and Logistics) comments, which are summarized above. Additional comments from the Navy on this recommendation are requested. Concerning the Air Force comments on the estimated monetary benefits, we recognize that materiel is being reutilized under existing CIRS processes. The audit estimate is based on additional reutilization of materiel with CIRS changes and improvements at involved IMM's.

B. Verifying Proceeds From Sales of Government-Owned Property

FINDING

At eight of the nine field contract administration activities visited, neither the plant clearance officer nor a designated Government representative verified the proceeds from contractor conducted sales of Government-owned property, as required by the Defense Federal Acquisition Regulation Supplement (DFARS). At the eight locations, the value of proceeds not verified for the 12 months ended December 1988 totaled \$13 million. An additional \$4.3 million from a contract termination action was not verified. At one location, excess Government-owned property was sold through a company run, retail store. Also, plant clearance officers at three locations were not witnessing contractor conducted sales of Government-owned property and, at two locations, were not verifying contractor prepared inventory schedules. Plant clearance officers were not verifying sales proceeds and were not witnessing contractor conducted sales because they were not aware of regulatory requirements to do so, and they lacked the training needed to trace accounting transactions through contractors' accounting systems. Consequently, there was no assurance that the proceeds due the Government were received and properly accounted for.

DISCUSSION OF DETAILS

Background. Overall policy and procedures for controlling proceeds from the sale of property are contained in the Federal Property Management Regulation and the DFARS. Subpart 101-45.307 of the Federal Property Management Regulation requires that the selling agency deposit gross proceeds from the sale of property into the Treasury as miscellaneous receipts unless the property was originally acquired with funds not appropriated from the general fund of the Treasury or the terms of the contract authorized the proceeds to be credited to the price or cost of the work covered by the contract. The DFARS, subpart 45.610-3, stipulates that Government plant clearance officers maintain open suspense records to verify that all proceeds due the Government from sales of Government-owned property are credited to Government accounts.

Verifying Proceeds from Sales of Government-Owned Property. Our review at nine contractor locations showed that, of \$13.5 million in fiscal year 1988 sales proceeds, \$13 million involving eight locations was not verified by the Government plant clearance officers or by a designated Government representative. Proceeds from plant clearance case inventories come from sales of either usable property or scrap materiel. At the 9 locations visited, we selected 90 closed cases (the 10 cases with the highest acquisition values from each location) for review and found that, in 52 cases, usable property or scrap materiel was sold. Usually, the proceeds from sales of usable

property are credited to the respective contracts, while proceeds generated from the sales of scrap materiel are credited to the contractors' Government materiel overhead accounts. Our review showed that Government plant clearance officers were not verifying that sales proceeds were credited to either the applicable contracts or the Government materiel overhead accounts.

Proceeds From the Sale of Usable Property. Proceeds from the sale of usable property were not verified at four of the nine locations visited and, at one location, the contractor was operating a cash basis, retail store. We found that proceeds were credited against firm-fixed-price contracts, and that plant clearance officers were not maintaining the required suspense records needed to verify that sales proceeds were properly credited to the Government. At the locations where sales proceeds were not verified, the Government plant clearance officers either did not have the training and knowledge to verify that sales proceeds were collected or they felt that contract auditors or other Government representatives, such as Government Property Administrators, verified that proceeds were credited to the Government.

Credits From a Terminated Contract. Our review at the Defense Contract Administration Plant Representative Office (DCASPRO), Newport Beach, California, showed that not all proceeds from sales of Government-owned property were verified. Our review of 10 closed plant clearance cases showed that 9 were for the termination inventory of a major weapon system, the Division Air Defense Gun System (DIVAD). Six of the nine cases generated proceeds totaling \$114,582, which were credited to a special contract termination account. Because of the magnitude of the weapon system program, we expanded our review to include all proceeds from the sales of the termination inventory. The contractor's records on the contract termination showed credits to the Government totaling \$217,973; however, DCASPRO, Newport Beach, records showed proceeds of \$4.5 million, \$4.3 million more than the contractor's records. DCASPRO, Newport Beach, personnel informed us that the difference of \$4.3 million, which was not verified, could have resulted from credits given by various subcontractors, which were not reported on the prime contractor's books. Since the DIVAD effort involved over 2,000 subcontractors, a complete reconciliation of all sales proceeds should have been done to verify that the Government received all credits due.

Retail Store Operation. The Government plant clearance officer did not verify sales proceeds from a company operated store. At the Defense Contract Administration Services Region (DCASR), Los Angeles, the contractor used a company operated retail store to sell excess Government-owned property. Usable Government-owned property, after being placed on plant clearance cases, was sold on a cash basis to the general public through a company store. Prices were determined judgmentally by a company

employee who also recorded sales on the company cash register. Both Government and contractor property were sold through the store, and separate cash register keys were used to record Government sales versus contractor sales. Although sales records of the contractor's retail operation were available, the plant clearance officer did not verify proceeds from the sale of Government-owned property. Our review of the company's daily cash receipts journal for fiscal year 1988 showed that the portion of the proceeds attributed to the Government totaled \$106,500 or 92 percent of all sales. We verified that the Government was credited this amount. However, we could not determine the value and the amount of property turned over to the company store because inventory records were not kept. This represented a serious flaw in internal controls, which gave no assurance that the Government received the proper amounts. Records obtained from Defense Contract Administration Services Management Area (DCASMA), Long Beach, showed that the company store had been in operation since June 1972. The original agreement to sell excess Government-owned property in the company store was between the company and the National Aeronautics and Space Administration (NASA). We noted that both NASA and Air Force owned property was sold in the company store. Retail sales of Government-owned property are not permitted. The DFARS and the Federal Property Management Regulation stipulate that Government property only be sold through competitive bids or negotiated sales. After we notified DLA of the retail store operation, DLA directed the DCASR, Los Angeles, to have the contractor stop selling Government-owned property in the retail store operation.

Credits To Fixed-Price Contracts. Our review at the Navy Plant Representative Office (NAVPRO), Pomona, California, showed that appropriate credits for some proceeds were not made to the Government. During calendar year 1988, proceeds from four formal sales totaled \$136,793. The plant clearance officer directed that the credits be applied to the contracts generating the excess property. If sales proceeds could not be identified to a specific contract, the plant clearance officer requested the contractor to issue checks for deposit into the miscellaneous account of the U.S. Treasury. We reviewed one of the four formal sales, which totaled \$29,490, to determine if the proceeds were credited properly. We found that \$23,355 was credited to specific contracts and the remaining \$6,135 was deposited into the U.S. Treasury. Further review showed that \$7,670 of the \$23,355 was credited to fixed-price contracts--a practice that would not decrease contract charges unless contract modifications were issued to decrease contract amounts. We found that for the 13 contracts involved, contract modifications were not issued. A similar condition was reported in Defense Contract Audit Agency (DCAA) Report No. 4501-7C179001, August 7, 1986. DCAA recommended that proceeds from sales of Government property that pertained to fixed-priced contracts be given in the form of a check, not as a credit to the applicable contracts. Although the NAVPRO, Pomona's, contracts division received the report, the

information was not conveyed to the plant clearance officer for appropriate action. As a result of our audit, NAVPRO, Pomona, took corrective action to stop the crediting of sales proceeds to fixed-priced contracts.

Suspense Records. At the nine locations visited, plant clearance officers were not maintaining suspense records of proceeds due from sales of Government-owned property. The DFARS, subpart 45.610-3, requires plant clearance officers to maintain an open suspense record of sales of Government-owned property until credits due the Government have been verified. Plant clearance officers at the nine locations were unaware of this requirement.

One of the ten closed cases sampled at the NAVPRO, Lynn, Massachusetts, involved the sale of industrial plant equipment. The contractor received payment of \$25,999 for the sale in February 1988. The Government plant clearance officer instructed the contractor to credit the proceeds to the applicable Army contract. Since the plant clearance officer did not maintain a suspense record, we contacted the procurement contracting officer at the Army Aviation Systems Command to verify the credit. The credit was applied to the Army contract in December 1988, during our audit work, and 10 months after the sale. Adequate suspense records and followup action would have detected this condition.

Proceeds From Sales of Scrap Materiel. Proceeds from the sale of scrap materiel were not verified at eight of the nine locations visited. During calendar year 1988, proceeds from scrap materiel sales at the eight locations amounted to about \$8.6 million. Normally, proceeds from sales of Government-owned scrap materiel are credited to the contractors' Government materiel overhead accounts, which eventually decreases the overhead costs on Government contracts. The reasons given by Government plant clearance officers for not verifying scrap sales proceeds were that they did not have the necessary accounting background needed to trace transactions through contractors' complex accounting systems or they were not aware of the regulatory requirements to do so. At the DCASPRO, Newport Beach, California, we verified credits from sales of scrap materiel and found that an erroneous accounting entry totaling \$99,512 was made in December 1988. The \$99,512 represented the retirement of a company-owned fixed asset that should have been posted against a company account. Instead, it was erroneously posted as a debit to the Government materiel overhead account, representing a charge to the Government. We brought this matter to the attention of DCASPRO, Newport Beach, for corrective action. If the plant clearance officer had verified sales proceeds, the \$99,512 error could have been detected. To verify that sales proceeds are properly applied to the Government materiel overhead accounts, Government plant clearance officers need adequate training to provide them with the resources necessary to trace entries in contractors' accounting records.

Witnessing Sales of Government Property. Government plant clearance officers were not witnessing contractor conducted sales or adequately verifying contractor prepared inventory schedules prior to the sale of Government property at three of the nine locations visited. DFARS, subpart 45.610-15, requires Government plant clearance officers to approve sales of Government-owned property. Specific duties include verifying that bidders lists are sufficient to obtain competition and witnessing bid openings to ascertain if prices offered are reasonable. DFARS also states that plant clearance officers should verify contractor prepared inventory schedules to ensure the accuracy of quantities and the condition of materiel. Government plant clearance officers were not witnessing formal bid openings at three locations visited and were not adequately reviewing contractor prepared inventory schedules at two locations visited. Plant clearance personnel did not witness sales because they lacked the time needed to attend bid openings or thought they were not required to do so. At the two locations where plant clearance officers were not verifying contractor prepared inventory schedules, there was no assurance that contractors' classifications of materiel as scrap were accurate. For example, at NAVPRO, Lynn, the contractor's inventory schedule showed materiel coded as scrap; however, our review of the contractor's records attached to the inventory schedule showed engineering codes indicating that the materiel was new. We verified that materiel in the inventory schedule totaling \$112,040 was new and that over \$74,000 in procurements were in-process at the applicable IMM's.

Augmentation of Funds From Plant Clearance Inventories. Proceeds from the turn in of plant clearance materiel could not be adequately verified when Government property was transferred from a contractor's operation to the Navy Supply Systems Command's (NAVSUP) account. In addition, when proceeds were realized, credits were not made to the applicable contracts. The plant clearance function at the Supervisor of Shipbuilding, Conversion and Repair, Newport News, Virginia, was not done. Instead, plant clearance inventory was turned over to a contractor employed by NAVSUP. The contractor screened the usable excess Government-owned materiel through the DoD Materiel Returns Program. When a requirement for the property was identified by applicable Government IMM's, a credit transaction was processed. The credit was not applied against the applicable contracts or the contractor's Government overhead account, instead, the credit was processed into the NAVSUP's Operations and Maintenance Account. Additional audit work is being done in this area, and a separate report will be issued on this subject.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Assistant Secretary of the Army (Research, Development and Acquisition); the Assistant Secretary of the Navy (Production and Logistics); the Assistant Secretary of the Air Force (Acquisition); and the Director, Defense

Logistics Agency, provide plant clearance officers with the training necessary to maintain property sales suspense records, verify proceeds from sales of Government property, and instruct plant clearance officers on the importance of witnessing sales and verifying inventory schedules.

2. We recommend that the Director, Defense Logistics Agency:

a. Verify that all sales proceeds generated from the termination of the Division Air Defense Gun System contract were credited to the Government contract termination account.

b. Follow up on the reported retail store operation at the Defense Contract Administration Services Region, Los Angeles, California, to verify that Government property is no longer sold in the contractor's store.

c. Verify that the \$99,512 accounting error found at Defense Contract Administration Services Plant Representative Office, Newport Beach, California, was corrected and that the Government received credit for the \$99,512.

MANAGEMENT COMMENTS

The Assistant Secretary of Defense (Production and Logistics) concurred with the finding and stated that compliance with DFARS procedures for verifying sales proceeds is required. The Director, U.S. Army Contracting Support Agency, concurred with Recommendation B.1. and stated that a memorandum would be sent to the Army Materiel Command by December 30, 1989, requesting that contract administration activities comply with the recommendation.

The Assistant Secretary of the Navy (Shipbuilding and Logistics) concurred with Recommendation B.1. and stated that these areas will be addressed at a Navy Plant Representative Office conference in January 1990 and a letter will be forwarded to all contract administration offices on these topics.

The Deputy Assistant Secretary of the Air Force (Acquisition Management and Policy) partially concurred with Recommendation B.1. and stated that the plant clearance officer recertification training materiel and Air Force Systems Command, Contract Management Division (CMD), Pamphlet 78-2, "Guide to Plant Clearance," will be amended by February 28, 1990, to include specific instructions for maintaining suspense records. In addition, a letter would be sent to Air Force plant clearance officers by December 15, 1990, informing them of these changes. CMD Pamphlet 78-2 requires plant clearance officers to verify contractor inventory schedules and witness contractor sales of Government property. Concerning training to trace transactions through contractors' records, the Deputy Assistant Secretary stated that, due to the complexity of some contractors' financial

accounting systems, it is more practical for plant clearance officers to request assistance from DCAA auditors, if required, to review how proceeds are credited.

The Comptroller, DLA, nonconcurred with Recommendation B.1. and stated that current regulations ensure that sales of contractor inventory are witnessed as appropriate, that sales proceeds are properly credited to the Government account, and that inventory verification surveys are conducted as part of the inventory schedule acceptance process. The Comptroller also stated that the Air Force Institute of Technology and the Army Logistics Management College provide plant clearance officers with the training we recommended. The Comptroller nonconcurred with Recommendation B.2.a. and stated that the final termination procedures used on the DIVAD called for the termination contracting officer (TCO) to review settlement proposals in excess of \$25,000 in plant clearance cases in order to ensure that the termination inventory was fully accounted for and that the proceeds generated from sales of Government property were properly credited to the termination account. Subcontractor proposals less than \$25,000 were settled by Ford Aerospace Corporation with DCAA oversight. The Comptroller also stated that the Defense Logistics Agency Manual 8110.1, "DLA Termination Manual for Contract Administration Services," paragraph 49.108-4 requires TCO's to perform selected reviews of subcontractor settlements. Execution of this procedure, in and of itself, should result in a complete reconciliation of all sales credits due the Government and negate the need for further audit. The Comptroller concurred with Recommendation B.2.b. and stated that a followup on the retail store operation at Rockwell International, Los Angeles, California, showed that all retail sales of DoD owned property had been stopped. Retail sales of NASA owned property continue at Rockwell International because Rockwell International received permission from the NASA Johnson Space Center to continue retail sales of NASA owned property in the company operated store. The Comptroller concurred with Recommendation B.2.c. and verified that the accounting error of \$99,512 that we detected at Ford Aerospace Corporation was with credited to the Government materiel overhead account.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The comments from the Assistant Secretary of Defense (Production and Logistics) and the comments and actions cited by the Director, U.S. Army Contracting Support Agency; the Assistant Secretary of the Navy (Shipbuilding and Logistics); and the Deputy Assistant Secretary of the Air Force (Acquisition Management and Policy) are responsive.

Concerning DLA's nonconcurrence with Recommendation B.1., we found that the existence of regulatory requirements for maintaining suspense records, verifying inventory and proceeds, and witnessing sales has not ensured that the requirements are being complied with, and additional emphasis and oversight is

required. Concerning DLA's nonconcurrence with Recommendation B.2.a., we do not dispute who was responsible for verifying the termination and sales of inventories. The contractor's records for the termination action showed that only \$217,973 was credited to the Government termination account while the TCO's termination records showed that \$4.5 million was derived from the sale of plant clearance inventories. Even though procedures were established for the termination action and Defense Logistics Agency Manual 8110.1, paragraph 49.108-4, requires TCO's to perform selected reviews of subcontractor settlements, there is no assurance that the procedures were followed since we could not reconcile the difference of \$4.3 million in sales proceeds from plant clearance cases.

Although DLA concurred with Recommendation B.2.b. to stop Rockwell International Corporation from selling DoD owned property in the company operated retail store, the action taken is incomplete. The DCASR, Los Angeles, is responsible for administering all contracts placed at the Rockwell location in Los Angeles and therefore should administer the contracts in accordance with the DFARS. Also, Government-owned property should be administered in accordance with DFARS and the Federal Managers Property Act. Neither the DFARS nor the Federal Managers Property Act permits retail sales of Government-owned property by contractors. We ask that DLA direct the contractor to stop selling all Government-owned property through the retail store or obtain a waiver from the regulatory requirements. DLA's action on Recommendation B.2.c. to have the contractor correct the \$99,512 accounting error and credit the Government materiel overhead account is responsive.

We request that DLA reconsider its position and provide additional comments on Recommendations B.1., B.2.a., and B.2.b.

C. Incurring Storage Costs

FINDING

Government-owned property was being retained at contractor locations for completed and closed contracts. Our review at 9 field contract administration activities disclosed that at 1 location, over \$31.5 million in Government-owned property was stored under 44 closed contracts that dated back to the 1950's. Further review of 60 additional contracts that were identified in DoD's property reports and that were awarded during the 1960's and 1970's showed that about \$286 million in Government-owned property was stored under 18 contracts that had been either closed or completed. Our review also showed that, contrary to DoD policy issued in November 1986, "no-cost" storage agreements were still in effect. The property was stored for long periods because of a lack of continuing enforcement of DoD's policy on the timely identification and disposition of excess property. As a result, the Government incurred unnecessary storage costs. For the \$286 million of property on closed or completed contracts, we estimated that storage costs charged to the Government would amount to about \$28.6 million a year.

DISCUSSION OF DETAILS

Background. The Federal Acquisition Regulation, subpart 45.612.1, requires that excess Government-owned inventory be removed from contractors' premises as soon as possible to preclude unnecessary storage expenses. In November 1986, the Under Secretary of Defense for Acquisition issued comprehensive policy guidance on Government property in the possession of Defense contractors. The guidance was developed in the interest of bringing about major improvements in the Government property area because internal studies, as well as General Accounting Office and DoD Inspector General reports, showed that DoD policies on the acquisition, management, control, and disposal of Government-owned property were not being followed. The November 1986 memorandum stated, in part, that Military Departments and Defense Agencies must dispose of obsolete and non-essential Government-owned property. Specific initiatives related to the storage of Government property were to:

- discontinue using "no-cost" storage agreements;
 - screen property stored under Government contracts each year to determine retention/disposition, and each year obtain written justification to continue storage;
 - separately price and directly fund all storage agreements;
- and
- dispose of all excess special tooling and special test equipment expeditiously.

To accomplish the above initiatives, the Military Departments and Defense Logistics Agency (DLA) headquarters directed their field contracting and contract administration activities to review all

contracts under which Government property was assigned, to dispose of all unneeded excess property, and to discontinue the use of "no-cost" storage agreements.

The 1986 memorandum also stipulated that improvements and actions taken should be tracked and reported. The DoD Property Accountability Report (DD Form 1662) was revised to give a more detailed summary of Government property in the possession of Defense contractors and to assist in the enforcement of Defense property policies. As of September 30, 1988, the DD Form 1662 reports, filed by over 4,600 Defense contractors, showed \$56.5 billion in Government property in their possession.

Actions Taken. In late 1986 and early 1987, the Military Departments and DLA published guidance on actions required and reporting requirements needed for compliance with the provisions of the Under Secretary of Defense's November 25, 1986, memorandum. Based on information gathered as of January 1, 1988, the Assistant Secretary of Defense (Production and Logistics) reported that over \$1.2 billion of unneeded or excess property had been disposed of as a result of reviewing 32,000 prime contracts and subcontracts, and that \$98 million of unneeded special tooling and special test equipment was disposed of as a result of eliminating 81 "no-cost" storage agreements. Comparable data for 1989 were not available because the information collected as of January 1, 1988, was a one-time requirement for congressional hearings. Although significant actions occurred during the 12 months ended January 1, 1988, our review showed that more work is needed in the property disposal area.

Storing Excess Property. At NAVPRO, Stratford, Connecticut, \$31.5 million in Government property was stored under 44 contracts that had been closed. Of the 44 contracts, 9 were awarded during the 1950's, and the remaining 35 were awarded during the 1960's and 1970's. Although we could not determine the actual cost to store the \$31.5 million in property, we noted that the contractor paid annual lease fees of \$800,000 to store some of this excess property, as well as other Government-owned property, in commercial warehouses: costs that were eventually billed to the Government. The contractor identified the \$31.5 million in Government property during an inventory that was taken in an effort to have the contractor's Government property control system recertified. The NAVPRO decertified the contractor's property control system because of deficiencies cited during property system surveys conducted by the Government property administrator.

We expanded our tests to determine if significant amounts of Government property were being retained for older contracts that were completed or closed. Our review of the DoD Property Accountability Report data disclosed that Government property with an acquisition value of \$2.2 billion was stored on 1,013 contracts that were awarded from 1950 through 1979. From

the 1,013 contracts, we selected for review the 60 contracts with the highest reported values of special tooling and special test equipment (20 contracts each awarded by the Army, Navy, and Air Force). The 60 contracts had a total of \$1.3 billion in stored property. Of the 60 contracts, we found 18, with a total of about \$286 million in Government property, that had been either completed or closed according to Government contract administrators' records (Appendix D). Three of the contracts had been completed in 1988. Eleven of the contracts had been completed or closed in 1987 or prior years, including two in 1976. For four contracts, we could not identify the applicable dates since the records had been retired.

The actual cost to store Government-owned property is generally unknown since, in most cases, costs are charged to the Government as indirect or overhead costs on active contracts and not separately accumulated. One of the nine contractors included in our plant clearance tests estimated that annual warehousing costs for Government-owned property amounted to about 10-percent of the acquisition value. There were no data on storage costs at the other contractor locations included in our audit. If the 10-percent estimate is representative of other DoD contractors' costs to store Government property, then storage costs for the property identified in the 18 closed or completed contracts would amount to about \$28.6 million. Prompt action to identify and take disposition action on property identified to completed and closed contracts would result in a significant cost avoidance.

"No-Cost" Storage Agreements. Although the Under Secretary of Defense's memorandum of November 1986 directed that the use of "no-cost" storage agreements be discontinued, Government property continued to be stored under "no-cost" storage agreements at five of the nine contractor sites visited. Because storage costs under "no-cost" agreements are charged as indirect or overhead expenses to other active Government contracts, the costs to store inactive property are obscured. To comply with the 1986 memorandum, the Military Departments and DLA issued guidance to their subordinate field activities to negotiate directly funded agreements after existing "no-cost" storage agreements had expired. Normally, "no-cost" storage agreements cover multiyear periods. Our review showed that "no-cost" storage agreements were still being used after the original ones had expired. At one location, we found two agreements that had been in effect since 1975 and 1982. In addition, four of the contracts included in our later test were "no-cost" type agreements. These contracts had not been separately priced to show actual costs to store Government property that was assigned. Rather, the facility contracts were modified to extend the duration of the existing agreements. At one location where the Defense Contract Administration Services Region was administering Army, Navy, and Air Force contracts, the property administrator notified the respective Military Departments that "no-cost" agreements needed to be renegotiated to show actual costs. However, no action was taken and the existing agreements remained in effect.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Assistant Secretary of Defense (Production and Logistics) monitor the implementation of the initiatives in the November 1986 policy memorandum by requiring the Military Departments and the Defense Logistics Agency to periodically inspect subordinate activities to ensure that decisions to continue to store Government property are comprehensive and completely documented, that plant clearance actions are taken on unneeded property, and that "no-cost" storage agreements are eliminated.

2. We recommend that the Assistant Secretary of the Army (Research, Development and Acquisition); the Assistant Secretary of the Navy (Shipbuilding and Logistics); the Assistant Secretary of the Air Force (Acquisition); and the Director, Defense Logistics Agency, review the Government property assigned to contracts that were awarded before 1980, ensure that plant clearance actions have been initiated on unneeded Government property, and, where appropriate, determine why contracts were closed before the Government property was dispositioned.

MANAGEMENT COMMENTS

The Assistant Secretary of Defense (Production and Logistics) concurred with the finding and stated that unneeded and/or excess property should be removed from contracts expeditiously, and there is a need to eliminate "no-cost" storage agreements as rapidly as possible to comply with the November 1986 policy direction. Concerning the estimated cost avoidance of \$28.6 million, the Assistant Secretary noted that the figure is based on one contractor's estimate and appears high, but a better estimate is not available. The Assistant Secretary concurred with Recommendation C.1. to monitor the implementation of the Under Secretary of Defense for Acquisition (USD[A]) property policies and stated that a quarterly implementation tracking report was established in June 1987 for this purpose. The Assistant Secretary also stated that the DoD Inspector General was requested to perform a field level audit of the USD(A) policies to determine if they are being implemented. The audit is scheduled to start in fiscal year 1990, and upon completion of the audit, the Assistant Secretary will reassess Recommendation C.1. to determine if separate follow-up action is needed.

The Director, U.S. Army Contracting Support Agency, concurred with Recommendation C.2. and stated that by December 30, 1989, a memorandum would be sent to the Army Materiel Command requesting that contract administration activities comply with the recommendation.

The Assistant Secretary of the Navy (Shipbuilding and Logistics) concurred with Recommendation C.2. and stated that guidance would be issued to Navy plant clearance officers to initiate plant

clearance action before closing contracts. Also, although a few previous "no-cost" storage agreements have not yet expired, the Navy is no longer issuing such agreements. This item is being added as a "special interest item" in Procurement Management Reviews.

The Deputy Assistant Secretary of the Air Force (Acquisition Management and Policy) partially agreed with the finding and stated that a contractor is under no obligation to report property for disposition until it is no longer needed on the contract or, in some cases, when the contract is physically complete. Two of the Air Force contracts cited in Appendix D have not experienced any significant delays in property disposition. The other Air Force contract has experienced delays, and the contract administration office has been instructed to be more aggressive in its efforts to clear the property. Contract F04701-71-C-0131 was identified as closed, when, in fact, it was physically completed. Concerning the estimated monetary benefits, the Deputy Assistant Secretary noted that they are based on one contractor's estimate of storage costs. Air Force experience is that storage costs are a function of the type of property and storage required and whether it is stored in a Government or contractor facility, and the audit suggests that all the property identified is being retained needlessly. The Deputy Assistant Secretary nonconcurred with Recommendation C.2. and stated that to review all contracts with property awarded before 1980 would not be productive in view of the extensive review conducted pursuant to the USD(A) memorandum of November 1986. Since 1986, the Air Force has placed renewed emphasis on the timely identification and disposition of excess property. Air Force implementation of the November 1986 memorandum included plans to phase out existing "no-cost" storage agreements and not enter into new agreements. Timely identification and disposition of excess property is continually stressed to plant clearance officers through recertification courses and property conferences.

The Comptroller, DLA, partially concurred with the finding. The majority of contracts were found to be in an open status (production complete and action ongoing to dispose of excesses). A minority of contracts were found to be complete with no justification for retention of Government property. DLA has instructed its field elements to take action on all completed contracts identified in the report and to have contractors dispose of excess Government property. The Comptroller did not agree that this area represents an internal control weakness. Sufficient guidance exists to ensure that contractors have a system in place to identify and dispose of excess Government property. This is an area that is looked at closely during property control system surveys and, recognizing that there may be isolated instances of property not being readily identified as excess, it is considered that adequate controls are in place to ensure that property is disposed of when no longer needed. The Comptroller, DLA, nonconcurred with Recommendation C.2. A

complete review of all DLA administered contracts authorizing Government property was done in 1987 and 1988 and resulted in plant clearance action on \$555 million of property. The review revealed a flaw in the mechanized contract tracking system, which permitted contract closeout prior to final disposition of property. The discrepancy has since been corrected. An additional full-scale review is not considered necessary. DLA has instructed field elements to take action on all completed contracts identified in the report and to have contractors dispose of any excess Government property.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The comments of the Assistant Secretary of Defense (Production and Logistics) are responsive. Concerning the requested audit, (DoD Inspector General planned Project No. OCF-P007), one objective will be to follow up on prior audit work concerning the 1986 property initiatives. We will provide the data on completed and closed contracts for follow-up evaluation during that audit. Concerning the comments on the estimated monetary benefits, we found no other data on the cost of retention of this property. If additional information has been developed on these costs, we request that it be provided in response to the final report. The Army and Navy comments and actions cited in response to Recommendation C.2. are responsive.

Concerning the Air Force comments, we have corrected Appendix D of the report to show contract F04701-71-C-0131 as completed, not closed. According to Air Force Acquisition Management Information System data, the contract was completed in October 1985. While taking action on individual contracts cited in the report, both the Air Force and Defense Logistics Agency nonconcurred with Recommendation C.2., citing the extensive efforts taken in response to the November 1986 USD(A) memorandum on Government property initiatives. This report recognizes the actions taken at that time and the significant quantities of unneeded and excess property identified and disposed of. However, the DoD Property Accountability Reports show significant amounts of property assigned to older contracts and, as previously discussed some of these contracts are categorized as completed or closed. DoD property policies provide for review and justification for the retention of Government property not currently needed. Management of Government property at contractors' plants and timely identification and disposition of excesses has been a longstanding problem in DoD. The review of older contracts addressed in Recommendation C.2. was intended to provide management emphasis where these reviews would likely be most productive. The Air Force and DLA are requested to reconsider their responses to this recommendation in reply to this final report.

PLANT CLEARANCE VOLUME AT ACTIVITIES INCLUDED IN AUDIT

<u>LOCATION</u>	<u>ALL ACTIVITIES VISITED</u>	<u>ACTIVITIES NOT USING CIRS 1/</u>
	<u>NUMBER OF CASES</u>	<u>NUMBER OF CASES</u>
	<u>DOLLAR VALUE</u>	<u>DOLLAR VALUE</u>
<u>ARMY</u>		
General Dynamics Detroit	378	378
Arsenal Tank Plant, MI	\$8,844,433	\$8,844,433
<u>NAVY</u>		
SUPSHIP 2/ Newport News, VA	1,372	1,372
	29,689,171	29,689,171
NAVPRO 3/ General Electric	548	548
Lynn, MA	18,705,341	18,705,341
NAVPRO General Dynamics	709	709
Pomona, CA	15,160,014	15,160,014
NAVPRO Sikorsky	509	
Stratford, CT	10,797,882	
<u>AIR FORCE</u>		
AFPRO 4/ Boeing Seattle, WA	1,564	
	43,709,653	
<u>DEFENSE LOGISTICS AGENCY</u>		
DCASPRO 5/ General Electric	36	
Moorestown, NJ	419,503	
DCASPRO Ford	647	
Newport Beach, CA	127,739,873	
DCASR 7/ Los Angeles	425	
Rockwell Corporation	32,657,339	
Long Beach, CA		
Total	6,188	3,007
	\$287,723,209	\$72,398,959

See footnotes on next page.

PLANT CLEARANCE VOLUME AT ACTIVITIES INCLUDED IN AUDIT (continued)

- 1/ Contractor Inventory Redistribution System.
- 2/ Supervisor of Shipbuilding, Construction and Overhaul.
- 3/ Naval Plant Representative Office.
- 4/ Air Force Plant Representative Office.
- 5/ Defense Contract Administration Services Plant Representative Office.
- 6/ Volume of plant clearance inventory at DCASPRO Ford was exceptionally high in fiscal year 1988 because of the termination of the Division Air Defense Gun System.
- 7/ Defense Contract Administration Services Region.

**SUMMARY OF ASSET NOTIFICATIONS SENT TO INTEGRATED
MATERIEL MANAGERS IN CIRS * CATALOG OF FEBRUARY 6, 1989**

	<u>Total</u>		<u>Correctly Notified</u>		<u>Not Notified</u>	
	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>
Army	55	\$ 123,000	0	\$ 0	55	\$ 123,000
Navy	118	901,000	94	851,000	24	50,000
Air Force	195	2,173,000	181	2,140,000	14	33,000
DLA	<u>629</u>	<u>3,068,000</u>	<u>178</u>	<u>674,000</u>	<u>451</u>	<u>2,394,000</u>
Total	<u>997</u>	<u>\$6,265,000</u>	<u>453</u>	<u>\$3,665,000</u>	<u>544</u>	<u>\$2,600,000</u>

* Contractor Inventory Redistribution System.

SUMMARY OF ITEMS REVIEWED AT INTEGRATED MATERIEL MANAGERS (IMM'S)

<u>IMM</u>	<u>Total Reviewed</u>		<u>With Requirement</u>		<u>Not Claimed</u>		<u>Reason Not Claimed</u>
	<u>Items</u>	<u>Value</u>	<u>Items</u>	<u>Value</u>	<u>Items</u>	<u>Value</u>	
Army CECOM <u>1/</u>	45	\$ 411,000	19	\$118,700	19	\$118,700	1
TACOM <u>2/</u>	3	8,600	0	0	0	0	
Navy SPCC <u>3/</u>	60	422,200	23	159,100	11	74,700	2, 3
ASO <u>4/</u>	55	630,700	36	527,800	36	527,800	2
DLA DISC <u>5/</u>	63	310,700	37	122,400	22	55,700	1
Air Force Ogden ALC <u>6/</u>	<u>11</u>	<u>64,100</u>	<u>5</u>	<u>34,900</u>	<u>2</u>	<u>2,500</u>	4
Total	<u>237</u>	<u>\$1,847,300</u>	<u>120</u>	<u>\$962,900</u>	<u>90</u>	<u>\$779,400</u>	

27

<u>Primary Reason Code</u>	<u>Explanation</u>
1	Notifications of assets not sent by the Defense Reutilization and Marketing Service
2	Procedure problem at IMM prevents screening of assets
3	Individual error by IMM personnel
4	IMM interpretation of Headquarter's guidance prevented requisitioning of assets

NOTE: There was \$162,567 in buys in-process at the time of our review; CECOM -- \$16,779, SPCC -- \$42,784, ASO -- \$78,465, and DISC -- \$24,539.

See footnotes on next page.

SUMMARY OF ITEMS REVIEWED AT INTEGRATED MATERIEL MANAGERS (IMM'S) (continued)

- 1/ Army Communications-Electronics Command, Fort Monmouth, New Jersey.
- 2/ Army Tank-Automotive Command, Warren, Michigan.
- 3/ Navy Ships Parts Control Center, Mechanicsburg, Pennsylvania.
- 4/ Navy Aviation Supply Office, Philadelphia, Pennsylvania.
- 5/ Defense Logistics Agency, Defense Personnel Support Center, Philadelphia, Pennsylvania.
- 6/ Air Logistics Center, Ogden, Utah.

CLOSED OR COMPLETED CONTRACTS WITH GOVERNMENT PROPERTY

GOVERNMENT PROPERTY ON-HAND AS OF 9-30-88

	Contract	Contract Administrator	Value of Gov't Property	Status	Date Closed/Completed
1.	DAAB07-68-C-0154	DCASR 1/, Los Angeles, CA	\$ 5,546,682	Completed	2/ 7-76
2.	DAAJ01-72-A-0001	DCASR, Boston, MA	1,771,931	Completed	6-88
3.	DAAJ01-73-C-0006	NAVPRO 3/, Stratford, CT	3,603,104	Completed	11-76
4.	DAAJ01-77-C-0001	NAVPRO, Stratford, CT	37,286,703	Completed	6-82
5.	DAAJ01-77-C-0052	DCASR, Boston, MA	743,567	Completed	12-84
6.	DAAA09-79-C-2222	DCASR, Atlanta, GA	6,756,403	Completed	4/
7.	DAAK20-79-C-0010	DCASR, Los Angeles, CA	1,548,480	Completed	7-88
8.	DAAK21-79-C-0159	DCASR, Philadelphia, PA	920,200	Completed	9-87
9.	F04701-71-C-0131	AFPRO 5/, Redondo Beach, CA	6,858,649	Completed	10-85
10.	F33657-73-C-0500	DCASR, Boston, MA	4,410,568	Completed	4/
11.	F33657-75-C-0254	NAVPRO, Bethpage, NY	7,377,718	Completed	4/
12.	F33657-75-C-0310	AFPRO, Fort Worth, TX	153,259,232	Completed	10-88
13.	F33657-77-C-0027	NAVPRO, St. Louis, MO	31,181,489	Closed 6/	6-87
14.	N00024-70-C-1300	DCASR, Philadelphia, PA	5,237,115	Completed	6-87
15.	N00019-71-C-0187	AFPRO, Canoga Park, AR	8,687,889	Completed	12-84
16.	N00019-77-C-0477	DCASR, Boston, MA	3,614,728	Closed	4/
17.	N63204-78-C-0001	DCASR, Cleveland, OH	3,966,662	Completed	10-87
18.	N00383-79-G-9502	DCASR, New York, NY	3,480,980	Completed	7-87
	Total		<u>\$286,252,100</u>		

- 1/ Defense Contract Administration Services Region.
- 2/ Completed status means that all contract deliverables have been received; only administrative matters remain open.
- 3/ Navy Plant Representative Office.
- 4/ Date could not be determined because applicable records were not available.
- 5/ Air Force Plant Representative Office.
- 6/ Closed status means that all deliverables have been received and administrative matters have been completed.



ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D C 20301-8000

PRODUCTION AND
LOGISTICS

December 6, 1989

(L/SD)

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
THRU: CHIEF, CAIR, PI *for g 12/6/89*

SUBJECT: Draft Report on the Audit of Plant Clearance Action on
Government-Owned Property in the Possession of Defense
Contractors (Project No. 8SL-0063)

This audit found that: (1) excess property at contractor locations that was not being fully screened for reutilization; (2) government personnel at eight locations were not verifying the proceeds from sales of excess government property; and (3) DoD was incurring unnecessary storage costs at nine locations because Under Secretary of Defense for Acquisition (USD(A)) property policies of 1986, were not fully implemented.

We concur with all of the recommendations that are addressed to ASD(P&L) for action, subject to a clarification of recommendation A.2.b. The attachment contains our responses to each of your findings and recommendations. This audit presents another challenge to continue to improve upon the property policy and management direction issued by the USD(A) in November 1986. Toward this end, we have established a group to develop an electronic plant clearance system to improve reutilization and to speed up disposal of excess property.

This audit report estimates monetary benefits, cost avoidances of \$50.9 million and requests our comments on the reasonableness of these estimates. Our views regarding these estimates are discussed in the attachment.

R.L. Beckwith
Major General, USMC
Military Deputy to ASD(P&L)

Attachment

"PLANT CLEARANCE ACTION ON GOVERNMENT-OWNED PROPERTY IN THE
POSSESSION OF DEFENSE CONTRACTORS"

DEPARTMENT OF DEFENSE COMMENTS

The Findings and Recommendations offered by the DoDIG in the above draft report and the Office of the Assistant Secretary of Defense (Production & Logistics) (OASD(P&L)) responses follow:

Finding A: Reutilizing Excess Government-owned Property - Excess Government-owned property at contractor locations was not screened through the Contractor Inventory Redistribution System (CIRS) as required by the Defense Federal Acquisition Regulation. This occurred because Government plant clearance officers did not include all items of excess inventory in the reutilization process; the Defense Reutilization and Marketing Service (DRMS) did not send asset availability notifications to the appropriate Integrated Materiel Managers (IMM); and some IMM's lacked adequate procedures to review asset notifications. As a result, over \$143 million in excess Government-owned property was not reviewed to fill supply system requirements. Based on our tests, we estimated that about \$21.5 million could have been recovered and reutilized by DoD IMM's.

OASD(P&L) Response: Concur. The estimated cost avoidance is \$5 million dollars higher than in the cost/benefit analysis performed for the planned electronic plant clearance project.

Recommendations A.1 through A.2.b.:

1. - This recommendation is directed to the Army and Navy, requesting them to take action to comply with the Defense Federal Acquisition Regulation Supplement (DFARS).

2. - We recommend that the Assistant Secretary of Defense (Production & Logistics):

a. Develop an automated plant clearance reutilization process for reporting excess property at contractors' locations to facilitate the identification and recovery of property by IMMs.

b. Require that formal procedures be developed for DoD IMMs to follow when reviewing Contractor Inventory Redistribution System (CIRS) asset notifications of excess contractor inventory.

OASD(P&L) Response:

a. Concur: During June 1989, the DoD Government Property Council, which is chaired by the DASD(Logistics), established an Ad Hoc Group chaired by DLA to investigate the feasibility of electronic plant clearance and then to develop the necessary policies and procedures for implementation. A test of this automated system is anticipated to occur by late Spring 1990, with the total system to be in operation by late Fall 1990.

b. Concur, with modification: The IMIs do need to have procedures for reviewing the CIRS. However, since the electronic plant clearance system discussed above will incorporate the CIRS, there is no plan to develop separate formal procedures for the IMMs on the current system. The IMM procedures will be developed in conjunction with the electronic plant clearance system.

Finding B: Verifying Proceeds From Sales of Government-owned Property at eight of the nine field contract administrative activities visited, neither the plant clearance officer nor a designated Government representative verified the proceeds from contractor-conducted sales of Government-owned property, as required by the DFARS. At the eight locations, the value of the proceeds not verified for the twelve months ending December 1988 totaled \$13 million.
..... Consequently, there was no assurance that the proceeds due the Government were received and properly accounted for.

OASD(P&L) Response: Concur. Compliance with DFARS procedures for verifying sales proceeds is required.

Recommendations B.1 through B.2.c.:

1. - This recommendation that training be provided for plant clearance officers is addressed to the Services and DLA.

2.a. - 2.c. - These recommendations are directed to the Director, Defense Logistics Agency (DLA) and relate to specific contract administration activities.

OASD(P&L) Response: These recommendations are procedural in nature and are not addressed to OASD(P&L) for comment.

Finding C: Incurring Unnecessary Storage Costs - Government-owned property was being retained at contractor locations for completed and closed contracts. Our review at nine field contract administration activities disclosed that at one location, over \$31.5 million in Government-owned property was stored under 44 closed contracts that dated back to the 1950s. Further review of 60 additional contracts that were identified in DoD's property records and that were awarded during the 1960's and 1970's showed that about \$286 million in

ACTIVITIES VISITED OR CONTACTED (continued)

Defense Logistics Agency

Headquarters, Defense Logistics Agency, Cameron Station, VA
Defense Reutilization and Marketing Service, Battle Creek, MI
Defense Contract Administration Services Region, Philadelphia, PA
Defense Contract Administration Services Region, Los Angeles, CA
Defense Contract Administration Services Plant Representative
Office (General Electric), Moorestown, NJ
Defense Contract Administration Services Plant Representative
Office (International Business Machines), Manassas, VA
Defense Contract Administration Services Plant Representative
Office (Ford Aerospace), Newport Beach, CA
Defense Contract Administration Services Management Area
(Rockwell International), Long Beach, CA
Defense Industrial Supply Center, Philadelphia, PA

Contractor Locations

Boeing Commercial Airplane Co., Seattle, WA
Boeing-Vertol, Philadelphia, PA
Ford Aerospace and Communications, Newport Beach, CA
General Dynamics, Pomona, CA
General Dynamics, Warren, MI
General Electric, Lynn, MA
General Electric, Moorestown, NJ
General Electric, Cincinnati, OH
Olin Corp., Lake City, MO
Rockwell International, Long Beach, CA
Tenneco, Newport News Shipbuilding and Drydock Co., Norfolk, VA
United Technologies, Sikorsky Aircraft Co., Stratford, CT

AUDIT TEAM MEMBERS

Donald E. Reed, Director, Logistics Support Directorate
Charles F. Hoeger, Program Director
Joseph P. Golden, Project Manager
John W. Henry, Team Leader
Alexander L. McKay, Team Leader
John Yonaitis, Team Leader
Paul A. Hollister, Team Leader
John P. Ferrero, Auditor
Herman Tolbert, Auditor
Robert E. Schonewolf, Auditor
Wayne E. Brownewell, Auditor

Government-owned property was stored under contracts that were closed or completed. Our review also showed that, contrary to DoD policy issued in November 1986, "no-cost" storage agreements were still in effect. The property was stored for long periods because of a lack of continuing enforcement of DoD's policy on the timely identification and disposition of excess property. As a result, the Government incurred unnecessary storage costs. For the \$286 million of property on closed or completed contracts, we estimated that the storage costs charged to the Government would amount to about \$28.6 million a year..

OASD(P&L) Response: Concur. Unneeded and/or excess property should be removed from contracts expeditiously. There is a need to eliminate "no-cost" storage agreements as rapidly as possible, in compliance with USD(A) property policy direction of November 1986. The estimated cost avoidance of \$28.6 million dollars a year is based on one contractor's estimate that annual warehousing costs are 10% of the acquisition cost of property. This percentage appears high; however, ASD(P&L) does not have a better estimate. This is why the new policy requires that storage agreements be individually priced and directly funded. For the property that is justified for retention, there is a need to understand actual storage costs.

Recommendations C.1 and C.2.:

1. We recommend that the Assistant Secretary of Defense (Production & Logistics) monitor the implementation of the initiatives in the November 1986 policy memorandum by requiring the Military Departments and the Defense Logistics Agency periodically inspect subordinate activities to ensure that decisions to continue to store government property are comprehensive and completely documented, plant clearance actions are taken on unneeded property, and no-cost storage agreements are eliminated.

OASD(P&L) Response : Concur. There is a need to monitor the implementation of the USD(A) property policies. That is why the ASD(P&L) quarterly implementation tracking report was established in June 1987. Further, it has been requested that the DoDIG perform a field level audit of these policies to determine if they are being implemented. This audit is scheduled to begin in January 1990. ASD(P&L) will assess the above recommendation to determine if a separate follow-up is necessary and appropriate without being duplicative.

2. Recommended that the Services and DLA review the government property assigned to contracts that were awarded before 1980, initiate plant clearance actions on all unneeded Government property, and, where appropriate, determine why contracts were closed before government property was dispositioned.

OASD(P&L) Response : This recommendation was not directed to OASD(P&L). However, it is noted that this recommendation is similar to policies within the USD(A) November 1986 policy memorandum, except for determining why contracts were closed.



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
U S ARMY CONTRACTING SUPPORT AGENCY
WASHINGTON, DC 20310-0103



REPLY TO
ATTENTION OF


SFRD-KP

12 DEC 1989

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE, 400 ARMY NAVY DRIVE,
ARLINGTON, VIRGINIA 22202

SUBJECT: Draft Report on the IG DoD Audit of Plant Clearance
Action on Government-Owned Property in the Possession
of Defense Contractors (8SL-0063)

The Army concurs with recommendations A.1, B.1 and C.2. A memorandum to the Army Materiel Command requesting contract administration activities to comply with the recommendations will be forwarded no later than 30 December 1989.


NICHOLAS R. HURST
Brigadier General, GS
Director, U.S. Army Contracting
Support Agency

CF:
SAIG-PA
SARD-ZE



DEPARTMENT OF THE NAVY
THE ASSISTANT SECRETARY OF THE NAVY
(SHIPBUILDING AND LOGISTICS)
WASHINGTON, DC 20360 5000

16 JAN 1990

MEMORANDUM FOR THE DIRECTOR, LOGISTICS SUPPORT DIRECTORATE,
DEPARTMENT OF DEFENSE INSPECTOR GENERAL

Subj: DRAFT REPORT ON THE AUDIT OF PLANT CLEARANCE ACTION ON
GOVERNMENT-OWNED PROPERTY IN THE POSSESSION OF DEFENSE
CONTRACTORS (PROJECT NO. 8SL-0063)

This is in response to your Draft Audit of Plant Clearance
Actions. Our comments on your recommendations are at TAB A.

Frank W. Swofford
FRANK W. SWOFFORD

By Direction of the Secretary of the Navy

Copy to:
NAVINSGEN
NCB-53

TAB (A) - Navy Comments

NAVY COMMENTS ON THE RECOMMENDATIONS
IN DRAFT AUDIT 8SL-0063

Finding A.

Excess Government-owned property at contractor locations was not screened and reutilized through the Contractor Inventory Redistribution System (CIRS) as required by the Defense Federal Acquisition Regulation Supplement (DFARS). This occurred because Government plant clearance officers did not include all items of excess inventory in the reutilization process; the Defense Reutilization and Marketing Service (DRMS), the Government activity responsible for the reutilization process, did not send asset availability notifications to the appropriate Integrated Materiel Managers (IMM); and some IMM's lacked adequate procedures to review the asset notifications. As a result, over \$143 million in excess Government-owned property was not reviewed to fill supply system requirements. Based on our tests, we estimated that about \$21.5 million could have been recovered and reutilized by DOD IMM's. Where IMM's did not review asset availabilities, another \$779,400 in excess inventory that could have satisfied supply system requirements was not claimed.

Recommendation

We recommend that the Assistant Secretary of the Army (Research, Development and Acquisition) and the Assistant Secretary of the Navy (Shipbuilding and Logistics) require field contract administration activities to follow the Defense Federal Acquisition Regulation Supplement requirements and use the Contractor Inventory Redistribution System in the plant clearance process.

Comments

We concur that Government-owned property at some Navy contractor locations was not screened and reutilized through the Contractor Inventory Redistribution System (CIRS). This finding does not, however, mean that excess material was not screened, disposed, and reutilized. Supervisor of Shipbuilding, Conversion, and Repair, USN (SUPSHIP) activities have not found CIRS to be responsive to the plant clearance efforts for the type of excess material found in shipbuilding programs, which includes a large amount of material without National Stock Numbers (NSNs). In lieu of CIRS, SUPSHIPS utilize other disposal programs, such as the Consolidated Residual Asset Management Program (SCRAMP) and the Intra-Fleet Supply Support Operations Team (ISSOT).

An example of the problem dealing with CIRS was presented by SUPSHIP Pascagoula in 1981 where CIRS provided disposition of only 15% of the line items submitted for disposal. ISSOT was able to dispose of 72% of the items presented for disposal. Excess material was also removed from the contractor facility

within 90 days, as opposed to an average of 135 days under CIRS. When an item remains in a contractor facility, there is no visibility of that item to the supply system, and storage costs could result. Being able to dispose of an item increases the possibility of reutilization.

SCRAMP is a NAVSEA program that deals with excess outfitting material from contracts funded with Shipbuilding and Conversion, Navy (new construction). This program, in FY89, satisfied construction outfitting requirements at a cost savings of \$4.8 million. The program has provided an effective means of disposal for SUPSHIPS dealing with new construction and outfitting.

We recognize this is not fully in accord with the DFARS regulation. Action is underway to obtain authorization to continue this effective method of plant clearance and reutilization.

Finding B.

At eight of the nine field contract administration activities visited, neither the plant clearance officer nor a designated Government representative verified the proceeds from contractor conducted sales of Government-owned property, as required by the Defense Federal Acquisition Regulation Supplement (DFARS). At the eight locations, the value of proceeds not verified for the twelve months ending December 1988 totaled \$13 million. An additional \$4.3 million from a contract termination action was not verified. At one location, excess Government-owned property was sold through a company run, retail store. Also, plant clearance officers at three locations were not witnessing contractor conducted sales of Government-owned property and, at two locations, were not verifying contractor prepared inventory schedules. Plant clearance officers were not verifying sales proceeds and were not witnessing contractor conducted sales because they were not aware of regulatory requirements to do so, and they lacked the knowledge needed to trace accounting transactions through contractors' accounting systems. Consequently, there was no assurance that the proceeds due the Government were received and properly accounted for.

Recommendation

We recommend that the Assistant Secretary of the Army (Research, Development and Acquisition), the Assistant Secretary of the Navy, (Shipbuilding and Logistics), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, provide plant clearance officers with the training necessary to maintain property sales suspense records, verify proceeds from sales of Government property, and instruct plant clearances officers on the importance of witnessing sales and verifying inventory schedules.

Comments

Concur. We are addressing these areas of concerns at the NAVPRO conference in January 1990. We will also forward a letter to all contract administration offices on these topics.

Finding C

Government-owned property was being retained at contractor locations for completed and closed contracts. Our review at nine field contract administration activities disclosed that at one location, over \$31.5 million in Government-owned property was stored under 44 closed contracts that dated back to the 1950's. Further review of 60 additional contracts that were identified in DOD's property reports and that were awarded during the 1960's and 1970's showed that about \$286 million in Government-owned property was stored under contracts that had been either closed or completed. Our review also showed that, contrary to DOD policy issued in November 1985, "no-cost" storage agreements were still in effect. The property was stored for long periods because of a lack of continuing enforcement of DOD's policy on the timely identification and disposition of excess property. As a result, the Government incurred unnecessary storage costs. For the \$286 million of property on closed or completed contracts, we estimated that storage costs charged to the Government would amount to about \$28.6 million a year.

Recommendation

We recommend that the Assistant Secretary of the Army (Research, Development and Acquisition), the Assistant Secretary of the Navy (Shipbuilding and Logistics), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency review the Government property assigned to contracts that were awarded before 1980, initiate plant clearance actions on all unneeded Government property, and, where appropriate, determine why contracts were closed before the Government property was dispositioned.

Comments

Concur. We will issue guidance to our plant clearance officers to initiate plant clearance action before closing contracts.

Although a few previous "no cost" storage agreements have not yet expired, we are no longer issuing such agreements. We will add this item as a "Special Interest Item" in the Procurement Management Review (PMR) issues.



DEPARTMENT OF THE AIR FORCE
WASHINGTON, D.C. 20330-1000

DEC. 15 1989

OFFICE OF THE ASSISTANT SECRETARY

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Draft Report of Audit of Plant Clearance Action on
Government-Owned Property in the Possession of Defense
Contractors (Project No. 8SL-0063) (Your Memo, Oct 4,
1989) - INFORMATION MEMORANDUM

This is in reply to your memorandum for Assistant Secretary of the Air Force (Financial Management and Comptroller) requesting comments on the subject report.

Regarding the estimated monetary benefits, we cannot concur in the \$22.3 million attributed to automating the excess property reutilization system or the \$28.6 million attributed to prompt plant clearance and avoiding unnecessary storage costs.

Contractor Inventory Redistribution System (CIRS) is already automated for Air Force Inventory Control Points, formal screening procedures are already in place, and reutilization of stock numbered items is consistent with DOD retention policy. Another automated system will not increase our reutilization. In addition, the \$22.3 million estimate assumes that there was no reutilization or there would have been none without using CIRS. This was not substantiated.

The audit estimate of storage costs for property on completed or closed contracts is \$28.6 million and is based on a single contractor's estimate of storage costs (10% of acquisition cost of the property). Air Force experience is that storage costs are a function of factors such as, the type of property involved, the type of storage required, and whether the storage is in a government or contractor facility. In addition, the audit suggests that all the property identified (\$286 million) is being retained needlessly. This was not substantiated. Our continuing review of so-called no-cost storage agreements indicates that roughly 50% of items reviewed are identified for continued retention.

We appreciate the opportunity to provide the attached comments. Our POC is Mr Eric Kattner, SAF/AQCM, at (202) 695-4982.

DANIEL S. RAK
Deputy Assistant Secretary
(Acquisition Management & Policy)

1 Atch
Air Force Comments

Air Force Comments on
Plant Clearance Action on Government-Owned Property
in the Possession of Defense Contractors
(Project 8SL-0063)

Audit Finding II.A.: Reutilizing Excess Government-Owned Property: Excess Government-owned property at contractor locations was not screened and reutilized through the Contractor Inventory Redistribution System (CIRS). Over \$143 million in excess government-owned property was not reviewed to fill supply requirements because the asset availability notifications were not sent to the appropriate Integrated Material Managers (IMM); and some IMMs lacked adequate procedures to review the notifications.

Air Force Comment: The finding does not appear to apply to the Air Force. Air Force Plant Representative Offices (AFPROs) use the CIRS. In addition, Air Force Inventory Control Points (ICPs) have a mechanized data system that receives all CIRS notifications, for items managed by that ICP, and all notifications received are required to be processed according to established procedures.

Audit Recommendation. Part II.A. Recommendation #2: Recommend that the Assistant Secretary of Defense (Production and Logistics):

(a) Develop an automated plant clearance reutilization process for reporting excess property at contractors' locations to facilitate the identification and recovery of property by Integrated Material Managers.

(b) Require that formal procedures be developed for DOD Integrated Material Managers to follow when reviewing Contractor Redistribution System asset notifications of excess contractor inventory.

Air Force Comment:

(a) Nonconcur. CIRS is an automated plant clearance reutilization process currently in place at HQ Defense Reutilization and Marketing Service (DRMS) for reporting items assigned a National Stock Number (NSN) to ICPs/IMMs. It was jointly developed by the Defense Logistics Agency (DLA) and the Military Services and implemented in July 1978. The CIRS automated system is similar to the system for reporting Front End Screening/Final Asset Screening (FES/FAS) referrals of excess assets located at the Defense Reutilization and Marketing Offices (DRMOs) to ICPs/IMMs for reutilization screening. Air Force ICPs and DLA IMMs receive the mechanized notifications from the CIRS computer into mechanized data systems for processing. CIRS is considered a workable system. DRMS advises that

the deficiency of misdirecting CIRS notifications has been corrected. Developing a new automated system will not guarantee that assets will be screened better than under the current system. Complete participation by all activities is the key for CIRS or any system to work.

(b) Concur with intent. DOD Directive 4100.37, Retention and Transfer of Material Assets, contains DOD guidance as to retention limits for retaining assets in the inventory. Air Force guidance is to requisition only those excess contractor items required to fill firm requirements within the established retention limits.

Audit Finding II.B.: Verifying Proceeds from Sales of Government-Owned Property: At eight of nine activities visited, neither the plant clearance officer (PLCO) nor a designated government representative verified the proceeds from contractor conducted sales of government-owned property. All nine PLCOs were not maintaining suspense records of proceeds due from sales of government-owned property. PLCOs at three locations were not witnessing contractor conducted sales of government-owned property and at two locations were not verifying contractor prepared inventory schedules. PLCOs were not verifying sales proceeds and were not witnessing contractor conducted sales because they were not aware of regulatory requirements to do so, or they lacked the knowledge needed to trace accounting transactions through contractors' accounting systems.

Air Force Comment: Concur with the finding that suspense records were not being maintained. The remaining parts of the finding do not appear to pertain to the Air Force.

The audit report said the AFPRO at Boeing did not maintain suspense records of proceeds due from sales of government-owned property. Boeing only conducts sales of commingled scrap with proceeds being credited to overhead accounts. The remainder of government property to be sold at that location is transferred to the DRMO who holds the sale. Proceeds received from the DRMO sale are absorbed by the DRMO and not returned to the AFPRO. An agreement has been reached with Defense Contract Audit Agency (DCAA) to verify accreditation of proceeds from scrap sales at Boeing. DCAA furnishes documentation of their verification of the scrap sale proceeds at Boeing on an annual basis. Therefore, there is no need for the AFPRO at Boeing to maintain a suspense record. However, Air Force Systems Command (AFSC) intends to strengthen its instructions to PLCOs on maintaining suspense records. Contract Management Division (CMD) Pamphlet 78-2, "Guide to Plant Clearance," instructs PLCOs to maintain a separate record on contractor conducted sales of government-owned property. The pamphlet states that the record should contain all correspondence on the sale and crediting of proceeds. It does not make it clear that the record should be a suspense record. Therefore, the PLCO recertification course

material and CMD Pamphlet 78-2 will be amended to include specific instructions for maintaining a suspense record. The instructions will say that the record is to be kept open until documentation is received showing the proceeds have been credited to the proper account. A letter will be sent to AFPRO PLCOs by Dec 15, 1989, informing them of the impending change to CMD Pamphlet 78-2. The recertification course material and Pamphlet 78-2 will be amended by Feb 28, 1990.

Chapter 13 of CMD Pamphlet 78-2 gives instructions on crediting proceeds for sale of government-owned property. CMD recently conducted a survey of the AFPROs to see that they were following the procedures given in Pamphlet 78-2. The survey results are currently under review. If the review indicates that guidance is needed, the AFPROs will be referred to Pamphlet 78-2.

The AFPRO PLCOs are reminded to verify contractor inventory schedules and to witness contractor sale of government-owned property through the PLCO recertification course and through CMD Pamphlet 78-2. CMD PLCOs are required to take the recertification course every three years.

Audit Recommendation. Part II.B. Recommendation #1: Recommend that the Assistant Secretary of the Army (Research, Development and Acquisition), the Assistant Secretary of the Navy, (Production and Logistics), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency, provide PLCOs with the training necessary to maintain property sales suspense records, verify proceeds from sales of government property, and instruct PLCOs on the importance of witnessing sales and verifying inventory schedules.

Air Force Comment. Partially concur. All these functions are required by regulation. Once the CMD Pamphlet 78-2 and the PLCO training course material are revised (revisions scheduled to be completed by Feb 28, 1990), the AFPRO PLCOs will have the training instructions available on all the mentioned functions.

However, the report indicates that the PLCOs should receive sufficient training in accounting that they can follow transactions through a contractor's complex financial accounting system. This is not practical; it takes extensive education in accounting to review some of these systems. If a PLCO requires assistance to review how proceeds were credited, a DCAA auditor should be contacted.

The DCAA Contract Audit Manual, 14-404.2, "Related Contract Audit Functions", recognizes the distinction between the duties of the auditor and the property personnel. According to the manual, "The contract auditor and the property administrator have certain related responsibilities for government property in the possession of contractors. As a generalization, the

contract auditor is primarily concerned with contractors' financial records and controls of government property.... The property administrator, on the other hand, is primarily concerned with contractors' property records and controls related to the physical existence, custody, maintenance,...."

Audit Finding. Part II.C. Incurring Unnecessary Storage Costs. Government-owned property was being retained at contractor locations for physically completed and closed contracts. No-cost storage agreements were still in effect. The property was stored for long periods because of a lack of continuing enforcement of DOD's policy on the timely identification and disposition of excess property.

Air Force Comment: Partially concur. The report identified two AFPRO-administered contracts as physically completed and one as closed with open property issues. Contract F04701-71-C-0131 was identified as closed, when in fact it is physically completed. The report suggests that having property accountable to physically complete contracts is inappropriate. We disagree; a contractor is under no obligation to report property for disposition until it is no longer needed on the contract or, in some cases, when the contract is physically complete. Two of the identified contracts, F04701-71-C-0131 and F33657-75-C-0310, have not experienced any significant delays in property disposition. Contract N00019-77-C-0187 has experienced delays and the AFPRO administering N00019-77-C-0187 has been instructed to be more aggressive in its efforts to clear the property.

Air Force implementation of the USD(A) memorandum dated Nov 25, 1986, included plans to phase out existing no-cost storage agreements and to instruct activities not to enter into any additional no-cost agreements. Such instructions were placed in the Air Force Federal Acquisition Regulation Supplement until a Defense Federal Acquisition Regulation Supplement change was published in Defense Acquisition Circular 88-3.

Timely identification and disposition of excess property is continually stressed to our AFPRO PLCOs through the PLCO recertification course and through all property conferences and seminars.

Audit Recommendation. Part II.C. Recommendation #1: Recommend that the Assistant Secretary of Defense (Production and Logistics) monitor the implementation of the initiatives in the Nov 1986 policy memorandum by requiring the Military Departments and the Defense Logistics Agency to periodically inspect subordinate activities to ensure that decisions to continue to store government property are comprehensive and completely documented, plant clearance actions are taken on unneeded property, and no-cost storage agreements are eliminated.

Air Force Comment: Concur with intent. AFSC provided for command inspection of certain actions regarding implementation of the USD(A) memorandum dated Nov 25, 1986. In addition, we continue to track AFSC and AFLC actions and report status quarterly to OSD including information on the phase out of so-called no-cost storage agreements.

Audit Recommendation. Part II.C. Recommendation 2: Recommend that the Assistant Secretary of the Army (Research, Development and Acquisition), the Assistant Secretary of the Navy (Shipbuilding and Logistics), the Assistant Secretary of the Air Force (Acquisition), and the Director, Defense Logistics Agency review the government property assigned to contracts that were awarded before 1980, initiate plant clearance actions on all unneeded government property, and, where appropriate, determine why contracts were closed before the government property was dispositioned.

Air Force Comment. Nonconcur. To review all contracts with property awarded before 1980 would not be productive in view of the extensive review of contracts to identify excess which was conducted pursuant to the USD(A) memorandum dated Nov 25, 1986. In addition, since 1986, renewed emphasis has been placed on the importance of timely identification and disposition of excess property. Of the Air Force administered contracts reviewed, only one (N00019-77-C-0187) has experienced plant clearance delays. The AFPRO has been instructed to be more aggressive in its efforts to plant clear the property.



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
CAMERON STATION
ALEXANDRIA, VIRGINIA 22304-6100



07 DEC 1989

IN REPLY
REFER TO

DLA-CI

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Audit of Plant Clearance Action
on Government-Owned Property in the Possession of
Defense Contractors (Project No. 8SL-0063)

In response to your memorandum dated 4 October 1989, enclosed
are our comments to the draft report.

FOR THE DIRECTOR:

8 Encl

Stephen J. Zavada, Jr.
STEPHEN J. ZAVADA, JR.
Acting Chief
Internal Review Division
Office of Comptroller

TYPE OF REPORT: AUDIT

DATE OF POSITION: 7 Dec 89

PURPOSE OF INFLT: INITIAL POSITION

AUDIT TITLE AND NO.: Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors (Project No. BSL-(063)

FINDING B: Verifying Proceeds from Sales of Government-Owned Property.
At eight of the nine field contract administration activities visited, neither the plant clearance officer nor a designated Government representative verified the proceeds from contractor conducted sales of Government-owned property, as required by the Defense Federal Acquisition Regulation Supplement (DFARS). At the eight locations, the value of proceeds not verified for the 12 months ended December 1988 totaled \$17 million. An additional \$4.7 million from a contract termination action was not verified. At one location, excess Government-owned property was sold through a company-run, retail store. Also, plant clearance officers at three locations were not witnessing contractor conducted sales of Government-owned property and, at two locations, were not verifying contractor prepared inventory schedules. Plant clearance officers were not verifying sales proceeds and were not witnessing contractor conducted sales because they were not aware of regulatory requirements to do so, and they lacked the knowledge needed to trace accounting transactions through contractors' accounting systems. Consequently, there was no assurance that the proceeds due the Government were received and properly accounted for.

DLA COMMENTS: Partially Concur

(1) We nonconcur with the finding regarding the verification of sales proceeds. The verification that sales proceeds have been properly credited to the Government account is a delegated function of the Government Property Administrator as permitted by DFARS 245.610-7. The verification process is accomplished during the annual Property Control System Survey (Reference ASFR Supplement 3, Annex 1, Category 10, Functional Area: Disposal, characteristic b5). Verification of credits due the Government in conjunction with terminations is the responsibility of the Termination Contracting Officer (TCO) using documentation provided by the Plant Clearance Officer (PLCO). In rare exceptions where prime contractors have been granted the authority to settle subcontractor claims less than \$25,000, individual transactions are not reviewed for disposal credits; however, annual reviews are made by the TCO to ensure that settlement procedures were adhered to.

The DoD IG has identified this area as an internal control weakness. We nonconcur with their assessment. Based on the foregoing, we are of the opinion that DLA has sufficient controls in place to ensure that proceeds from the sale of surplus contractor inventory are properly credited to the Government account.

(2) We concur with the finding regarding the retail sales operation (Rockwell Int'l., Downey, CA). The sale of DoD owned property via the contractor's retail sales operation has been suspended. Rockwell has been granted authority by NASA Johnson Space Center to continue selling NASA owned property in the company store. We consider the Rockwell

retail sales operation to be unique and consider corrective action to be complete.

(3) We nonconcur with the finding regarding the witnessing of contractor conducted sales. The Plant Clearance Officers (PCLOs) at the DLA sites reviewed are complying with the requirements of the DoD Federal Acquisition Regulation Supplement (DFARS) 245.610-1(a)(2)(iii).

(4) We partially concur with the finding regarding the verification of contractor prepared inventory schedules. The PCLO at Rockwell Int'l. was conducting a limited verification of NASA property (Nonreportable and Shuttle unique) based on a 1975 Johnson Space Center delegation which limited inventory verifications to nomenclature, count, and location. Results of the verification were not being recorded. DCASR Los Angeles determined that an all encompassing inventory verification survey by Quality Assurance was not needed to satisfy the intent of the NASA verification requirements. Verification of DoI listings at Rockwell is accomplished in accordance with the Federal Acquisition Regulations, Part 45.603-7(b). PCLOs at the other DLA sites reviewed are complying with the above verification requirements. The finding at Rockwell is considered an isolated instance and has been corrected. No further corrective action is considered necessary.

MONETARY BENEFITS: None.

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Raymond D. Audet, DLA-AMC. 47711

DLA APPROVAL: William J. Cassell

FORMAT 2 OF 6

TYPE OF REPORT: AUDIT

DATE OF POSITION: 7 Dec 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Plant Clearance Action on Government-Owned
Property in the Possession of Defense Contractors
(Project No. 85L-0063)

RECOMMENDATION E.1.: We recommend that the Director, Defense Logistics Agency, provide plant clearance officers with the training necessary to maintain property sales suspense records, verify proceeds from sales of Government property, and instruct plant clearance officers on the importance of witnessing sales and verifying inventory schedules.

DLA COMMENTS: We nonconcur with the above recommendation. Current regulations ensure that sales of contractor inventory are witnessed as appropriate, DFARS 245.610-1(a)(2) (ii); that sales proceeds are properly credited to the Government account ASPR Supplement I, Appr. 1, Category 11, Functional Area: Disposal, characteristic BE; and that inventory verification surveys are conducted as part of the inventory schedule acceptance process, FAR 45.603-3(b). Comprehensive training in each of these areas is currently being provided by the Air Force Institute of Technology and the Army Logistics Management College to plant clearance officers.

DISPOSITION:

[] Action is ongoing; Final Estimated Completion Date:

[X] Action is considered complete.

MONETARY BENEFITS: None.

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Raymond L. Audet, DLA-AMD, 47711

DLA OFFICIAL: William J. Cassell

TYPE OF REPORT: AUDIT

DATE OF POSITION: 7 Dec 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Plant Clearance Action on Government-Owned
Property in the Possession of Defense Contractors
(Project No. BSL-0063)

RECOMMENDATION NUMBER 8.2.a.: We recommend that the Director, Defense
Logistics Agency, verify that all sales proceeds generated from the
termination of the Division Air Defense Gun System contract were
credited to the Government contract termination account.

DLA COMMENTS: We concur with the above recommendation. The final
termination settlement procedures used to reconcile contractor/
subcontractor claims against the DIVAD called for TCO review of
settlement proposals in excess of \$25,000 against all corresponding
closed plant clearance actions to ensure that termination inventory was
fully accounted for and that all sales proceeds generated from plant
clearance actions were properly credited to the termination account.
Subcontractor proposals less than \$25,000 were settled by Ford
Aerospace with DCAF oversight. DLAM 8110.1, Termination Manual for
Contract Administration Services, paragraph 49.10E-4, also requires
that the TCO perform selected reviews of such subcontract settlements.
Execution of the above procedure, in and of itself, should result in
complete reconciliation of all sales credits due the Government and
negate the need for further audit.

DISPOSITION:

- ☐ Action is ongoing; Final Estimated Completion Date:
- ☒ Action is considered complete.

MONEY BENEFITS: None.

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Raymond D. Aucet, DLA-AMC. 47711

DLA APPROVAL: William J. Cassell

TYPE OF REPORT: AUDIT

DATE OF POSITION: 7 Dec 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Plant Clearance Action on Government-Owned
Property in the Possession of Defense Contractors
(Project No. ESL-0063)

RECOMMENDATION NUMBER B.2.b.: We recommend that the Director, Defense Logistics Agency, follow up on the reported retail store operation at the Defense Contract Administration Services Region, Los Angeles, to verify that Government property is no longer sold in the contractor's store.

DLA COMMENTS: We concur with the above recommendation. A follow-up of the retail sales operation at DCASR Los Angeles, (Rodwell Int'l. revealed that all such sales actions relative to DoD property have been suspended. All sales of DoD owned property at Rodwell are now being conducted in accordance with DFARS 145.610. Rodwell requested and received authorization from NASA Johnson Space Center to continue the sale of NASA owned property in their company store. Procedures for the sale of contractor inventory are adequately described in the DFARS and no further corrective action is considered necessary.

DISPOSITION: For use on Recommendation page only.

☐ Action is ongoing; Final Estimated Completion Date:

☒ Action is considered complete.

MONETARY BENEFITS: None.

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

CATE BENEFITS REALIZED:

ACTION OFFICER: Raymond D. Audet, DLA-AMC, 47711

DLA APPROVAL: William J. Cassell

TYPE OF REPORT: AUDIT

DATE OF POSITION: 7 Dec 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Plant Clearance Action on Government-Owned
Property in the Possession of Defense
Contractors (Project No. BSL-0063)

RECOMMENDATION NUMBER E.2.c.: We recommend that the Director, Defense Logistics Agency, verify that the \$99,512 accounting error found at Defense Contract Administration Services Plant Representative Office, Newport Beach, California, was corrected and that the Government received credit for the \$99,512.

DLA COMMENTS: We concur with the above recommendation. It was confirmed that an accounting error was made by Ford Aeronutronic which resulted in a debit of \$99,512 to the Government material overhead account. The accounting entry was made 5 January 1989, prior to the Government property survey. As the Government material overhead account is reviewed by the Government Property Administrator during the property control system survey (Category 10, ASPR Supplement 3) and since a debit to this account is highly unusual, it is likely that this error would have been detected during the survey. DCASR Los Angeles has confirmed that the error has been corrected.

DISPOSITION:

- () Action is ongoing; Final Estimated Completion Date:
- (X) Action is considered complete.

MONETARY BENEFITS: Correction of this recommendation resulted in a
savings to the Government of \$99,512

DLA COMMENTS: Accounting error has been corrected

ESTIMATED REALIZATION DATE: Immediate

AMOUNT REALIZED: \$99,512

DATE BENEFITS REALIZED:

ACTION OFFICER: Raymond D. Rucet, DLA-PMC, 47711

DLA APPROVAL: William J. Cassell

TYPE OF REPORT: AUDIT

DATE OF POSITION: 7 Dec 89

PHASE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors (Project No. BSL-0063)

FINDING NUMBER 0: Incurring Unnecessary Storage Costs.

Government-owned property was being retained at contractor locations on completed and closed contracts. Our review at 7 field contract administration activities disclosed that at one location, over \$11.5 million in Government-owned property was stored under 44 closed contracts that dated back to the 1950's. Further review of 50 additional contracts that were identified in DoD's property reports and that were awarded during the 1960's and 1970's showed that about \$13.6 million in Government-owned property was stored under contracts that had been either closed or completed. Our review also showed that, contrary to DoD policy issued in November 1988, "no-cost" storage agreements were still in effect. The property was stored for long periods because of a lack of continuing enforcement of DoD's policy on the timely identification and disposition of excess property. As a result, the Government incurred unnecessary storage costs. For the \$13.6 million of property on closed or completed contracts, we estimated that storage costs charged to the Government would amount to about \$13.6 million a year.

DLA COMMENTS: We partially concur with the finding. A review of DLA administered contracts that were the subject of the 13 audit revealed that some contracts were in fact not closed but in an active status fully justifying the contractor's retention of Government Property. The majority of contracts were found to be in an open status, production complete, and action ongoing to dispose of excesses. A minority of contracts were found to be complete with no justification for retention of Government Property. DLA has instructed the field elements to take action on all completed contracts identified by the DoD 13 to have contractors dispose of any excess Government Property.

The DoD 13 has identified this area as an internal control weakness. We concur with their assessment. FAR and DFARS contain sufficient guidance to ensure that contractors have a system in place to identify and dispose of excess Government property. DLA on numerous occasions has issued supplemental policy to ensure that Government Property Administrators as part of their annual property control system surveys are actively enforcing this requirement and no further corrective action is considered necessary. We are of the opinion that DLA has adequate controls in place to ensure that contractors are disposing of excess Government property when no longer needed or upon completion of contract. This is an area that is looked at closely by the Property Administrator during the property control system survey. Property Administrators employ statistical sampling techniques to review contractors control of Government property, including authorization for retention and prompt disposition of property. The statistical sampling process provide a 90% confidence level; therefore, we realize their re-

be isolated instances of Government property not being readily identified as excess. The assurance of a 100% confidence level in this area would require the application of significant additional resources.

MONETARY BENEFITS: None.

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Raymond L. Audet, DLA-RMD, 47711

DLA APPROVAL: William J. Cassell

TYPE OF REPORT: AUDIT

DATE OF POSITION: 7 Dec 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Plant Clearance Action on Government-Owned
Property in the Possession of Defense
Contractors (Project No. SSL-0063)

RECOMMENDATION NUMBER D.1.: We recommend that the Assistant Secretary of Defense (Production and Logistics) monitor the implementation of the initiatives in the November 1986 policy memorandum by requiring the Military Departments and the Defense Logistics Agency to periodically inspect subordinate activities to ensure that decisions to continue to store Government property are comprehensive and completely documented, plant clearance actions are taken on unneeded property, and no-cost storage agreements are eliminated.

DLA COMMENTS: We concur with the above recommendation. In response to the November 1986 policy, DLA advised the DCASRs to review all contractor's property control systems to ensure that the contractor's procedures timely identify excess Government property. As part of this review the DCASRs identified no cost storage agreements and requested the cognizant PCO to transfer the property to a cost type contract or dispose of the property if no longer required. Property Administration personnel continue to review annually retention requirements for Government property in possession of contractors.

DISPOSITION:

- I: Action is ongoing; Final Estimated Completion Date:
- IX: Action is considered complete.

MONETARY BENEFITS: None.

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Raymond D. Aubert, DLA-AMC, 4771.

DLA APPROVAL: William C. Cassell

TYPE OF REPORT: AUDIT

DATE OF POSITION: 7 Dec 89

PURPOSE OF INPUT: INITIAL POSITION

AUDIT TITLE AND NO.: Plant Clearance Action on Government-Owned
Property in the Possession of Defense Contractors
(Project No. 8SL-0063)

RECOMMENDATION NUMBER D.L.: We recommend that the Director, Defense
Logistics Agency, review the Government property assigned to contracts
that were awarded before 1980, initiate plant clearance actions on all
unused Government property, and, where appropriate, determine why
contracts were closed before the Government property was dispositioned.

DLA COMMENTS: We concur with the above recommendation. In addition
to the results of our survey of 13 selected contracts (see DLA comments
to 13 Finding C above), a complete review of all DLA administered
contracts authorizing use of Government property in the performance of
the contract was accomplished in 1987-88 (see above). The review was
spearheaded by an OSI initiative to reduce the overall amount of
Government property in the possession of contractors and focused on the
contractor's justification for continued retention of Government
property in support of contract requirements. The review resulted in
approximately 500,000 line items of inventory valued at \$335,000,000
being disposed of through the plant clearance process. The issue of
contract closeout prior to property disposition was also looked at
during that time. Our review revealed a flaw in the mechanized
contract tracking system which permitted contract closeout prior to
final disposition of Government property. This discrepancy has since
been corrected in the redesigned contract property tracking system now
employed in the DCASRs. In view of the foregoing, a full scale review
of contracts containing Government property is not considered
necessary.

DISPOSITION:

- () Action is ongoing; Final Estimated Completion Date
- (X) Action is considered complete.

MONETARY BENEFITS: None.

DLA COMMENTS:

ESTIMATED REALIZATION DATE:

AMOUNT REALIZED:

DATE BENEFITS REALIZED:

ACTION OFFICER: Raymond D. Audet, DLA-AMC, 47711

DLA APPROVAL: William J. Cassell

**SUMMARY OF POTENTIAL MONETARY AND OTHER
BENEFITS RESULTING FROM AUDIT**

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefit</u>
Recommendation A.2.	Economy and Efficiency. Automating the plant clearance retuiliation process, Contractor Inventory Redistribution System (CIRS) and developing formal procedures for DoD Integrated Materiel Managers to identify and recover needed materiel from excess property at contractor locations.	Revised estimate of \$17.3 million based on Assistant Secretary of Defense (Production and Logistics) response to report. Original estimated Cost avoidance of \$22.3 million. Specific program elements cannot be identified. (1) An estimated \$6.8 million (recurring) could have been recovered at the four locations included use in the audit that did not CIRS. (2) An estimated \$14.7 million (recurring) could have been recovered by automating the program and eliminating the problem of transmissions to the wrong Integrated Materiel Manager. (3) A one-time cost avoidance of \$779,400 for excesses that would have been recovered by the Integrated Materiel Managers if appropriate procedures had been developed and needed items requisitioned.
Recommendation C.1.	Economy and Efficiency. Avoiding unnecessary storage costs by reviews of stored property and ensuring that plant clearance actions are taken on unneeded property.	Estimated cost avoidance of \$28.6 million. Specific program elements cannot be identified. Recurring cost avoidance could be achieved by avoiding unnecessary storage costs. Audit identified \$286 million of property stored at contractors' locations and identified to closed and completed contracts. Storage costs not generally available for

SUMMARY OF POTENTIAL MONETARY AND OTHER
BENEFITS RESULTING FROM AUDIT (continued)

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefit</u>
Recommendation C.1.		Government property at contractor locations. Estimated storage cost of 10 percent of acquisition value determined by one contractor included in audit scope.

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Production and
- Logistics), Washington, DC

Department of the Army

Office of the Assistant Secretary of the Army (Research,
Development and Acquisition), Washington, DC
Army Materiel Command, Alexandria, VA
Army Armament, Munitions and Chemical Command, Rock Island, IL
Army Tank-Automotive Command, Warren, MI
Army Tank Plant, Warren, MI (General Dynamics)
Army Ammunition Plant, Lake City, MO (Olin Corp.)
Army Plant Representative Office, Philadelphia, PA (Boeing-Vertol
Helicopters)
Army Communications-Electronics Command, Fort Monmouth, NJ
Army Directorate of Management Information Systems,
Fort Monmouth, NJ
Army Aviation Systems Command, St. Louis, MO

Department of the Navy

Office of the Assistant Secretary of the Navy (Shipbuilding
and Logistics), Washington, DC
Naval Sea Systems Command, Washington, DC
Naval Air Systems Command, Washington, DC
Naval Supply Systems Command, Washington, DC
Fitting Out And Supply Support Assistance Center, Norfolk, VA
Intra-Fleet Supply Support Operations Team, Norfolk, VA
Supervisor of Shipbuilding, Conversion and Repair, Newport News,
VA (Newport News S&DDC)
Navy Plant Representative Office, Stratford, CT (Sikorsky)
Navy Plant Representative Office, Lynn, MA (General Electric)
Navy Plant Representative Office, Pomona, CA (General Dynamics)
Navy Aviation Supply Office, Philadelphia, PA
Navy Ships Parts Control Center, Mechanicsburg, PA
Naval Publications and Forms Center, Philadelphia, PA

Department of the Air Force

Office of the Assistant Secretary of the Air Force (Acquisition),
Washington, DC
Air Force Logistics Command, Wright-Patterson Air Force Base, OH
Air Force Contract Management Division,
Kirtland Air Force Base, NM
Air Force Plant Representative Office, Seattle, WA (Boeing)
Air Force Plant Representative Office, Cincinnati, OH
(General Electric)
Air Force Logistics Center, Hill Air Force Base, Ogden, UT